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**Conceptualizing the challenges and contextual
factors affecting property crowdfunding in
New Zealand, and the response strategies of the
real estate project finance industry**

By

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degree of

Doctor of Philosophy

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Dedication

I dedicate this thesis to:

My late mother, Otilia Mhlanga

Thank you for dreaming big dreams for me.

My late father, Samuel RK Mhlanga

Thank you for your gentle soul, big heart, and generosity.

I am very grateful for the gift of education.

You instilled in me ambition, determination, persistence, and strong work ethic.

These qualities served me well on my doctoral journey.

I know you are looking down upon me with immense pride for this accomplishment.

I love you very much, *Mai vangu na Baba vangu* (my mother and my father).

My beloved M

You are my greatest inspiration, my prototype, my guide, my beacon of light, my angel.

Thank you for your love, presence, spirit, and wonderment.

I will always carry you in my heart.

I love you for eternity.

Ad Majorem Dei Gloriam

Abstract

During the past decade, property crowdfunding (PC) platforms in overseas markets such as USA and UK have grown rapidly and raised billions of dollars of finance for real estate projects. Yet, PC is struggling to gain acceptance in New Zealand, and the reasons why are not fully understood. It is also unknown how incumbents in the real estate project finance industry may strategically respond to PC, if or when it grows in the future. This study is a qualitative investigation into the challenges and contextual factors impeding the growth of PC in New Zealand, and the response strategies of the incumbents. In-depth one-to-one semi-structured interviews were conducted with 31 knowledgeable and experienced research participants from diverse stakeholder groups including PC platforms, bank and non-bank real estate project financiers, and the property industry. The research participants were largely from New Zealand, with a few from USA, Europe, and Australia. The primary data from interviews was complemented with extensive secondary data. The disruptive innovation theory (DIT) was used as the main theoretical tool, supported by literature on organizational legitimacy and reputation building for young firms, as well as legitimacy building in crowdfunding.

The research showed that PC in New Zealand is small and nascent. PC platforms in New Zealand face several limitations, specifically, lack of: (a) transparency, (b) due diligence, (c) exit strategies and/or secondary markets, (d) scale and diverse properties, and (e) “crowds” of investors ready to invest. The study also found that numerous contextual factors are hindering the growth of PC in New Zealand, categorised as: (a) property developers, investors, and the construction industry, (b) cultural and behavioural factors, (c) regulatory framework for PC, and (d) population and income factors. Based on analysis of successful platforms in overseas mature PC markets, the study found that these limitations are solvable for New Zealand. Despite the challenges PC is currently facing, which must be resolved if it is to realize its potential, PC in New Zealand has a positive future outlook. Incumbents such as banks can

strategically respond to PC in three main ways: (a) ignore PC, (b) collaborate with PC platforms, and (c) strengthen own business model, products and services. The study advanced a conceptual framework on challenges and contextual factors affecting PC in New Zealand, response strategies of the incumbents, and recommendations on how to solve the problems impacting PC platforms.

This research makes several academic contributions. First, it contributes to build knowledge on PC in New Zealand, a hitherto unresearched and little understood topic. Second, the study contributes to DIT by testing its tenets, predictions, and conjectures in a previously unexamined context of PC in New Zealand. Third, this study contributes towards alleviating some of the inherent limitations and weaknesses of DIT. Fourth, the study found that New Zealand has a particularly high concentration of several adverse or unfavourable contextual factors in one single market that are impeding PC, and the real estate project finance industry has a low disruptive susceptibility. These findings have important implications for DIT. Fifth, the study delivers a comprehensive literature review from multiple disciplines, thereby contributing to the knowledge base in the PC field. Sixth, this study makes a methodological contribution. The qualitative methodology used has not yet been seen in previous studies on PC. By utilizing a qualitative methodology and collecting extensive primary data through comprehensive interviews with diverse stakeholders, the study shows the complexity of introducing a new innovation, from a contextual and behavioural perspective. Lastly, this study's findings can benefit other small advanced economies. The challenges and problems faced by PC in New Zealand suggest some important lessons to be learnt by other similar small advanced economies. Numerous practical, policy, and social implications arise from this study. It makes specific recommendations to different stakeholders of PC, including PC platforms, developers, banks, investors, and the PC regulator in New Zealand, namely the Financial Markets Authority.

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Chapter 1 Introduction

1.1 Study background and rationale

During the past decade, property crowdfunding (PC) has received substantial interest as an innovative and viable means for funding and investing in real estate projects. While PC has grown significantly in overseas markets such as USA, UK, and Europe, it is struggling to gain acceptance or popularity in New Zealand. The New Zealand media and financial commentators have grappled with reasons why PC is struggling to grow in New Zealand (BusinessDesk; 2021; Money King NZ, 2021; National Business Review, 2018; New Zealand Herald, 2016; NZ Stuff, 2021). Despite this media interest and struggling platforms, PC has not received academic attention in New Zealand. This gap in knowledge motivated this study which is aimed at investigating the challenges and contextual factors affecting PC in New Zealand, and the response strategies of the real estate project finance industry towards PC.

PC is a new, innovative tool for financing real estate, whereby property developers raise funding from many people (i.e., the crowd) through internet-based, technology-enabled platforms, thereby giving investors an opportunity to invest in and co-own real estate assets (Cannon, 2014; Schweizer & Zhou, 2016; Vogel & Moll, 2014). PC is a sub-sector of the broader crowdfunding sector. Crowdfunding is defined as financing a project through raising money from many individuals through online-based platforms, without using conventional financial intermediates (Mollick, 2014). Crowdfunding and PC emerged after the 2007-2008 Global Financial Crisis (GFC) which caused constricted lending for real estate (Baldwin, 2017). The GFC led to a gap in finance which mainly affected small and medium-sized enterprises (SMEs) in many industries, including real estate (Pekmezovic & Walker, 2016). As a result, some SME property developers encounter problems in getting bank loans, and are

increasingly using PC platforms to raise finance for their projects (Anderson, 2016; Goins, 2014; Vogel & Moll, 2014). Although PC began in response to the gap in finance for SMEs, it has since grown in recent years to become a significant industry.

The introduction of crowdfunding laws in USA and UK, among other countries, facilitated PC's rapid growth. Crowdfunding law was introduced in the USA through the Jumpstart Our Business Start-up Act 2012 (JOBS Act 2012) (Baker, 2016; Cohen, 2017). In the UK, crowdfunding regulation was enacted by the Financial Conduct Authority (FCA) in 2014. PC platforms in USA and UK have achieved significant success during the past decade. For instance, Realty Mogul, a USA PC platform established in 2012, has to date facilitated crowdfunding of real estate projects amounting to \$4.7 billion (Realty Mogul, 2022). Patch Lending, a USA platform established in 2012, has to date crowdfunded \$1.5 billion of real estate projects (Patch Lending, 2022). In the UK, LendInvest, one of the leading PC platforms founded in 2008 has thus far facilitated crowdfunding of £3 billion of loans and mortgages (LendInvest, 2022). Property Partner, another leading PC platform in the UK, has crowdfunded £140 million worth of property (Property Partner, 2022). Although PC has grown significantly in other nations such as USA and UK, it has not achieved similar success in New Zealand.

In New Zealand, legislation allowing equity crowdfunding and PC was enacted by the Financial Markets Conduct Act 2013 (FMC Act 2013). According to the New Zealand Financial Markets Authority (FMA), equity crowdfunding is a process whereby businesses raise capital from people without the legal requirement of disclosing detailed information to investors (FMA, 2021a). In practice, equity crowdfunding began in New Zealand during 2014, with the issuance of the first equity crowdfunding licences and the establishment of several platforms which crowdfund projects from all industries. Subsequently, starting in November

2016, several PC platforms exclusively focused on crowdfunding for real estate were established. While project and equity crowdfunding platforms in New Zealand have been very successful, raising millions of dollars for projects and businesses from a wide range of industries, crowdfunding for real estate has not achieved similar success. There is a lack of research on the underlying reasons why PC is struggling to grow in New Zealand.

New Zealand was chosen as the target for this study because it offers an interesting and research-worthy context for studying PC due to a mix of factors that makes it unique. First, the crowdfunding legislation formulated by the FMA stipulates that developers or real estate project owners can only raise a maximum of NZ\$2 million per year from crowdfunding platforms (FMA, 2021a). During the past two decades, property and land prices in New Zealand increased significantly (Nunns, 2021). The crowdfunding cap of \$2m/year is therefore likely to limit the growth of PC as a financing tool. Second, the New Zealand building sector has a poor reputation due to the “leaky building syndrome” (Shi et al., 2017, p. 19), and numerous developer companies have failed, resulting in investors or prospective homeowners losing their money. PC – as a business model, financing tool, and investment tool – is embedded within, or associated with the building industry. It is therefore important to examine how the reputation of the building industry in New Zealand may be impacting the uptake and growth of PC.

Third, the New Zealand non-bank financial sector has had a poor reputation (Mayes, 2015). Numerous finance companies, including South Canterbury Finance, Hanover Finance and Bridgecorp Holdings, collapsed during the GFC, and many New Zealanders lost their money (New Zealand Parliament, 2011). An investigation by the New Zealand government estimated that between 150,000 and 200,000 New Zealanders lost over \$3 billion due to the failure of a

number of finance firms (New Zealand Parliament, 2011). The collapse was highly publicised, and impacted the image and reputation of the non-bank finance sector in New Zealand (Mayes, 2015). PC is a non-bank, alternative financing and investment tool, and it is not known how the history and reputation of the non-bank financial sector may impact the acceptance of PC in New Zealand. Fourth, New Zealand presents unique behaviours and cultural factors pertinent to PC because the idea of shared or fractional property ownership is relatively new to most New Zealanders. This concept may not be aligned with New Zealanders' culture of, and preferences for outright home or property investment ownership (Huber & Schmidt, 2022). Additionally, first home buyers are increasingly struggling to afford purchasing a home, despite the common and inherent goal of home ownership among New Zealanders (Wimalasena et al., 2022). There is a need to analyze how these cultural and behavioural factors in New Zealand are impacting the acceptance of PC. Fifth, New Zealand has a relatively small population of 5 million people, compared to USA's 328 million, and UK's 67 million, markets where PC has grown significantly. As a business model, crowdfunding depends on bringing together many individuals whereby each contribute money towards funding a project. Based on population, New Zealand presents an interesting context in which to study the crowdfunding business model.

These are some of the contextual factors that make New Zealand not only a unique environment in which to study the emerging innovation of PC, but also an interesting research target. Scholars and industry commentators have argued that PC will impact the industry and the financial institutions who conventionally finance real estate projects such as banks (Cannon, 2014; Crowe, 2016; EY, 2016; Goins, 2014; Rutter, 2014). Although PC in New Zealand is in its early stages, it may potentially grow in the future. This necessitates examining how

incumbents in the industry may strategically respond to PC. Against this background, this study conducts an in-depth examination of PC in New Zealand.

This introduction chapter outlines the setting for this research. Section 1.1 has provided the background and rationale of the study. The remainder of this chapter is structured as follows. Section 1.2 provides the research gaps, questions and objectives of the thesis. Section 1.3 presents an overview of the research methodology. Section 1.4 outlines the academic, practice, policy, and social significance and contributions of the research. Lastly, Section 1.5 presents structure of the thesis.

1.2 Research gaps, questions, and objectives

1.2.1 Research gaps and questions

Scholars have studied PC in mature overseas markets such as USA, UK, and Europe. Although PC has been in the news often in New Zealand, academic research has lagged behind. Due to the nascent and small state of PC in New Zealand, the sector has not yet attracted scholarly research. The lack of academic research on this emerging, innovative business model in New Zealand created several gaps in knowledge.

This study used the Disruptive Innovation Theory (DIT) (Bower & Christensen, 1995; Christensen, 1997; Christensen et al., 2018; Christensen & Rayonier, 2003; Danneels, 2004) to examine PC in New Zealand. DIT is a theoretical lens used to study new innovative technologies, business models, products, or services entering new markets. DIT was established based on research in numerous industries as well as contexts (Bower & Christensen, 1995; Christensen, 1997; Christensen & Rosenbloom, 1995). DIT is used to examine how and

why established, incumbent firms in an industry may be impacted by new, innovative entrants typically offering inferior but modern and technology-based products or services (Christensen, 1997; Christensen et al., 2018). DIT is a lens for analysing the disruptive potential of innovations, and how incumbents may strategically respond (Adner & Snow, 2010; Markides & Charitou, 2004).

It is well-acknowledged in the DIT literature that the theory has some inherent limitations and weaknesses (Christensen et al., 2018; Hopp et al., 2018; Si & Chen, 2020). DIT has been criticized for failing to sufficiently consider the impact of contextual factors on the disruptiveness of innovations (e.g., Chesbrough, 1999a; 1999b; Antonio & Kanbach, 2023). The theory has been criticized for overlooking the role of social and market embeddedness when studying innovations (e.g., Reinhardt & Gurtner, 2018). Scholars have argued that DIT lacks predictive ability; the theory's ability to detect and predict a disruptive innovation before it impacts an industry has been contested (Danneels, 2004; King & Baatartogtokh, 2015; Millar et al., 2018; Markides, 2006; Tellis, 2006). When DIT was first introduced, some scholars argued that the assumptions, conjectures and claims of DIT have limited generalizability due to paucity of empirical evidence (Danneels, 2004; Govindarajan & Kopalle, 2006b; Tellis, 2006; Utterback & Acee, 2005). However, this criticism has gradually weakened over the years as more studies have been conducted in different innovations, industries, and countries (Christensen et al., 2018; Si & Chen, 2020). DIT scholars have sought to address these inherent limitations and weaknesses of the theory in order to improve it, as presented later in Section 2.1.8. Hopp et al. (2018) state that during the past decade, research has “stimulated fertile discussions about the limitations of disruptive innovation theory”, and, subsequent scholarly works have “offered possible remedies, thereby advancing theory development.” (p. 448).

DIT was chosen as the main theoretical lens for this study because it is suitable for analysing the new innovation of PC. Further, DIT has been successfully used to study various innovations that have entered the real estate industry. For instance, scholars have used DIT to examine: (a) space-as-a-service in commercial real estate in Sweden (Enstrom & Paulsson, 2020), (b) online-based discount real estate brokerage in Canada (Dewald & Bowen, 2010; Osiyevskyy & Dewald, 2015), (c) impact of blockchain in value chains of the property industry (Veuger, 2018), and (d) Airbnb and its impact in tourism accommodation and hotels sectors (e.g., Guttentag & Smith, 2017). In other industries, several studies have also proved the predictions and conjectures of DIT, using empirical data. For example, Lucas and Goh (2009) used DIT to study the traditionally analogue photography company Kodak (Eastman Kodak Company). Using Kodak data, Lucas and Goh (2009) demonstrated that DIT accurately explains how Kodak failed to strategically respond to the emerging and disruptive digital photography, leading to the company's subsequent failure and bankruptcy. Karimi and Walter (2015) used DIT to investigate digital disruption of the newspaper industry, and showed how the century-old newspaper industry suffered digital disruption due to the internet and digitization.

During the past two decades, the accuracy and validity of DIT has gradually improved because it has been applied and tested in numerous innovations, industries, and countries, in many different studies (Christensen et al., 2018; Hopp et al., 2018; Si & Chen 2020). Christensen et al. (2018) reviewed empirical studies which have tested DIT's core tenets and insights, and proved the efficacy of the theory. Supported by real-world observations and empirical studies, DIT is a valuable theoretical tool for studying transformative, technology-enabled innovations entering markets in different industries (Hopp et al., 2018). Prior studies from a wide range of industries and countries have proved the efficacy of DIT; the theory has been proved to be effective, successful and reliable in examining new, potentially disruptive innovations. The

theory's tenets, predictions, and conjectures have been tested and supported by data and real-world observations. This justified the use of DIT in this present study to examine the innovation of PC in the real estate project industry in New Zealand. By applying DIT to a hitherto unexamined context of PC in New Zealand, this study contributed towards strengthening the theory and its tenets and principles.

PC is an innovation with potential to disrupt the real estate project finance industry (Cannon, 2014; Vogel & Moll, 2014). PC is already impacting real estate project finance industries in countries such as USA (Shahrokhi & Parhizgari, 2019; Starr et al., 2020). In New Zealand, following the enactment of equity crowdfunding legislation in 2014, and subsequent establishment of several PC platforms since 2016, as well as significant success achieved by overseas PC markets, there was anticipation and speculation that PC was going to grow and impact the industry. However, despite substantial effort, and monetary and time investments put into PC platforms, as well as marketing and promotional efforts, it appears PC platforms are struggling to gain acceptance in New Zealand. Little academic attention has been given to theoretically and empirically examining PC in New Zealand. No studies have applied DIT, the theoretical lens for examining new innovations, to PC, an emerging, innovative tool for financing real estate projects in the New Zealand context.

Overall, although there are several PC platforms operating in New Zealand, there is a lack of knowledge of PC. Specifically, there is a dearth of an in-depth understanding and knowledge of: what PC is perceived to mean, its current state, PC platforms' limitations, contextual factors shaping PC's uptake and development, and the response strategies of the industry towards PC. This gap in knowledge motivated this study's overall research question:

What challenges and contextual factors are affecting property crowdfunding in New Zealand, and how may the real estate project finance industry strategically respond to property crowdfunding?

To address this overarching research question, numerous sub-research questions were developed, as presented in subsequent sections.

1.2.1.1 Definition of property crowdfunding

In view of the fact that PC is still a fairly new financial tool, and the PC sector is still nascent and small, only a few scholars have attempted to define PC (Baldwin, 2017; Schweizer & Zhou, 2016; Srovnalikova & Ditkus, 2016). Definitions advanced by these scholars have highlighted the key aspects of PC, namely, it involves developers raising funds for their projects from many individuals through online platforms. Due to slight variations in the definitions of PC in the literature, at the beginning of this research, I examined the definitions of PC in the extant literature and consolidated the different elements of these definitions into one definition that became the working definition for this study.

The working definition of PC used in this study is: PC involves property developers or project owners raising capital from many people (the crowd) via online based platforms, thereby giving the crowd an opportunity to invest in and co-own real estate assets. This working definition encapsulates the previous definitions; it is a result of blending different definitional elements into one definition. Developing my own working definition of PC at the beginning of this study was important because it assisted in keeping attention on the key aspects of PC that are

important and pertinent to this study, namely (a) PC platforms, (b) developers/project owners, and (c) investors/the crowd.

Building on the few definitions of PC offered in the literature and guided by the working definition of PC adopted in this study, the research aimed to find out how interviewees describe PC. Overall, a review of the literature revealed that, given the nascent state of PC, and the limited academic research on it, there is a lack of comprehensive descriptions of PC. Further, PC is still relatively new and little-understood in New Zealand, and therefore it was important to explore what PC is and what it means in the local context. This gap motivated the first sub-research question of this study:

Sub-Research Question 1: What is property crowdfunding?

1.2.1.2 Current state of property crowdfunding

Following the introduction of crowdfunding legislation in New Zealand, several PC platforms were established between 2016 and 2021. Although there have been numerous media articles about these PC platforms, academic research on these platforms, and the PC sector in New Zealand, has lagged behind. Specifically, no studies have yet examined in detailed how PC is faring in New Zealand since its introduction into the market a few years ago, and what its current state is.

According to DIT, when a potentially disruptive innovation enters an industry, it may take years, or decades, for it to have an impact in the market (Christensen, 1997). The way an innovative business model impacts or disrupts an industry is a long process that takes time

(Christensen, 2006). DIT posits that when a new innovation is introduced in a market, it goes through three stages, namely “foothold market entry” whereby it initially enters the market; “main market entry” whereby it gets into the main market, and “failure of incumbents” whereby disruption (potentially) occurs and incumbents fail (Keller & Husig, 2009, p. 1046). New innovations entering a market are commercialized in the lower segment of the market, or they create a new market (Christensen et al., 2000; Christensen et al., 2002; Van Orden et al., 2011). Low end disruption involves using an innovation that cost-effectively and profitably serve customers with less demands whom the incumbents are overlooking, neglecting, or willing to lose (Christensen et al., 2003; Corsi & Di Minin, 2014). New innovations position themselves in the low-end market and attract under-served customers by offering products and services that have certain features that are valued by these customers, and in doing so, they avoid competing directly with incumbents and this allows them to “establish a foothold in the market” (Hwang & Christensen, 2008, p. 1330). Prior research has shown that PC is a potentially disruptive innovation (e.g., Gigante & Cozzio, 2021; Vogel & Moll, 2014). Since the introduction of PC platforms in New Zealand beginning in 2016, scholars have not yet examined the current situation of PC in the country.

A few researchers have studied PC in other countries and reported on the state of PC in these countries. For example, Schweizer and Zhou (2017) reported that PC in USA is very mature. Supported by clear and robust legislation, as well as demand for investment opportunities in real estate by the general public, PC platforms in USA are mature and advanced, and offer attractive risk-adjusted returns to investors (Schweizer & Zhou, 2017). Garcia-Teruel (2019) reported that, compared to USA, the PC sector in Spain is relatively small, with ten PC platforms operating. Following the enactment of the Finnish Crowdfunding Act in 2016, the PC sector in Finland is still relatively young, but the volume of PC transactions on the platforms

is increasing exponentially, supported by a financing gap in the market, and strong interest by the general public to invest in real estate (Bogdanova, 2018). The PC sector in China, which began in 2014, is still very young, but is forecast to grow in the future, driven by investing demand from retail investors, demand for finance by SMEs, and the rising popularity of innovative business models (Tang, 2019). Although scholars have examined PC in other markets, no studies have so far examined the current state of PC in New Zealand. This present study's findings will address this gap and build on the prior studies that have examined the current state of PC in other countries.

Overall, despite the enactment of equity crowdfunding legislation in New Zealand in 2014, and subsequent issuance of FMA licenses to several PC platforms starting in 2016, no academic attention has been directed towards examining the current state of PC in the country. Thus far, there has not been a comprehensive scholarly examination of how PC has fared since its entry into the market a few years ago, or what its current state is. This gap motivated the second sub-research question of this study:

Sub-Research Question 2: What is the current state of PC in New Zealand?

1.2.1.3 Limitations of property crowdfunding platforms

In New Zealand, PC has been struggling to become accepted or popular, both as a financing tool for developers, as well as an investment tool for the general public. Yet, there has not been academic research into limitations or weaknesses of PC platforms which may explain why they have so far performed poorly. According to DIT, newly launched innovations typically have some limitations or weaknesses compared to products and services offered in the mainstream market by incumbents (Christensen, 1997; Christensen & Raynor, 2003). Characteristically, a new product or service gets into the market through an under-served segment of the market, which is not too ‘picky’ or demanding, and can accept an inferior product or service (Christensen & Raynor, 2003). DIT also posits that, new, innovative business models often face challenges when they enter new markets, and, while some may grow large enough to impact the market, some do not, and some fail to make an impact on incumbents (Christensen, 1997). Thus far, no attention has been given to studying in detail the limitations of PC platforms in New Zealand using DIT.

PC platforms in New Zealand are relatively young entrepreneurial firms that lack legitimacy and reputation. When PC legislation was introduced in New Zealand, a few entrepreneurial New Zealanders, partly inspired by the success of PC platforms in overseas markets, founded their own PC platforms. One of the PC platforms, the first crowdfunding platform for property development, even got the financial and business support of Icehouse, an organization that supports small enterprises in New Zealand (NZ Herald, 2016b). Other PC platforms reportedly received financial backing from venture capital firms. Despite the efforts of PC platform founders and managers, as well as financial backers, it appears that, as young entrepreneurial firms, PC platforms are struggling to gain momentum in New Zealand.

To date, no studies have examined the limitations of PC platforms in New Zealand using the literature on legitimacy and reputation building for young entrepreneurial firms (Lange et al., 2011; Petkova et al., 2008; Zimmerman & Zeitz, 2002). Extant literature on legitimacy and reputation building suggests that new and young firms require legitimacy and reputation in order to survive and grow, and reputation building is a common challenge for these firms (Petkova, 2016; Petkova et al., 2008). Organizational legitimacy represents a social assessment of the acceptance, appropriateness, competency, desirability, and worthiness of a new firm in the market (Zimmerman & Zeitz, 2002). Legitimacy is important for new firms' survival and growth, yet it is not automatically acquired or achieved by the firms at the outset (Zimmerman & Zeitz, 2002). Legitimacy and reputation building is also essential for the acceptance and growth of technological and online platform-based new ventures (Frydrych et al., 2014; Kwak et al., 2019). A new firm seeking acceptance of its platform, or its technology, must first build its market, relational, and social legitimacy among stakeholders (Kwak et al., 2019). There is a gap in knowledge on how PC platforms' lack of legitimacy and reputation, as young entrepreneurial firms, may explain how they have performed so far in New Zealand.

A few studies have shown the limitations and challenges of PC platforms in other countries. For example, Garcia-Teruel (2019) studied five of the ten PC platforms in Spain and found that there is a lack of information and transparency on the platforms. Garcia-Teruel (2019) also reported that only three out of the five platforms have secondary markets on their websites and there is a lack of liquidity as the shares or investments cannot be traded easily or freely. Borrero-Dominguez et al. (2020) also studied PC in Spain and conclude that there is a need to address the current limitations of PC platforms in Spain, namely lack of liquidity and platform insolvency, in order to enable PC to grow. Tang (2019) investigated PC platforms in China and found that they lack diversification in terms of the types and locations of the properties they

offer. PC platforms in China also lack the expertise to conduct robust due diligence; they lack transparency and information disclosures, as well as exit mechanisms (Tang, 2019). A study of PC platforms in Finland found that platforms suffer from low liquidity and lack of secondary markets, although some platforms have been working on developing secondary markets for their platforms (Bogdanova, 2018). While a few studies have shown the limitations of PC platforms in other countries, scholars have not yet examined limitations of PC platforms in New Zealand. This study's findings will build on prior studies that have analysed limitations of PC platforms in other countries.

Overall, although PC platforms entered the New Zealand market at the end of 2016, and seem to be struggling to gain popularity, there is a lack of research on limitations or weaknesses of these PC platforms which may be hindering their growth. This gap motivated the third sub-research question of this study:

Sub-Research Question 3: What are the current limitations of property crowdfunding platforms in New Zealand?

1.2.1.4 Contextual factors impacting property crowdfunding

As described in preceding Section 1.1, New Zealand is a unique context within which to study PC, an innovation that has been successful in other markets such as USA and UK. New Zealand's small population; construction industry and non-bank financial sector industry with poor reputations, PC regulatory framework, and distinct cultural and behavioural factors, make New Zealand a unique context for studying PC. PC is not (yet) having any impact in the

industry in New Zealand as it is struggling to grow. Thus, there is a need to examine how New Zealand contextual factors have influenced the performance of PC to date.

Prior DIT literature shows that contextual factors in different countries can impact the uptake, growth, and disruptiveness of new innovations introduced in those countries (Antonio & Kanbach, 2023; Chesbrough, 1999a; Huesig et al., 2014; Ruan et al., 2014; Urbinati et al., 2018). A new innovation's contextual factors, namely characteristics of its external environment at country, institutions, economy, industry, and societal levels, affect the degree to which the new innovation may disrupt or impact incumbents in its relevant industry. Rules and norms in a particular context also influence the ability of a new innovation to attract mainstream customers (Pinkse et al., 2014; Yu & Hang, 2010). Differences in legislation between countries can cause the same innovation to develop differently, and have different disruptive impact (i.e., large or small) in different countries (Chesbrough, 1999a; Pinkse et al., 2014; Yu & Hang, 2010). Cultural factors in a certain context affect the acceptance and performance of a new innovation in that context (Chesbrough, 1999a; Yu & Hang, 2010). New innovations' embeddedness in society means that the uptake of their products or services is affected by customer preferences in the various contexts they are introduced (Pinkse et al., 2014). Scholars have not yet studied how contextual factors in New Zealand have shaped the performance of PC. DIT literature suggests that the contextual environment is one of the most critical factors that influence the disruptiveness of a new innovation (Antonio & Kanbach, 2023; Si & Chen, 2020).

A few studies have examined how contextual factors in other countries have influenced the development of PC. For example, scholars have studied how legislative factors have affected PC growth in different countries. In the USA, the JOBS Act 2012 has facilitated the growth of

PC as it removed the constricting laws for raising capital from the general public or ordinary investors, and gave the public access to the investment asset class of real estate (Schweizer & Zhou, 2017). In Spain, legislation for crowdfunding has enabled PC platforms to grow, although there is a need to improve the legislation to ensure that the sector grows further (Borrero-Dominguez et al., 2020). In Finland, the Finnish Crowdfunding Act (CFA, 734/2016) was enacted in 2016, and it has provided a supportive regulatory framework for PC growth (Bogdanova, 2018). In Italy, since the introduction of the first crowdfunding legislation in 2013, improved legislative clarity over the years has gradually enabled the PC sector to grow, and has helped investors to have confidence in PC platforms (Gigante & Cozzio, 2021). In China, although PC has grown in recent years, the industry has struggled with a vague PC regulatory framework (Tang, 2019). Unclear and erratic legislation for PC in China has limited PC's potential growth; it made it difficult for SMEs to raise finance using crowdfunding, and it also caused the general public to lack trust in PC platforms (Tang, 2019). Based on evidence from the UK, Gibilaro and Mattarocci (2018) found that restrictions in the traditional mortgage market in the UK, specifically stringent lending policies by traditional lenders such as banks, have led to the expansion of crowdfunding as well as peer-to-peer lending of real estate mortgages, which have been taking increasing market shares.

A few researchers have studied how behavioural and demographic factors have impacted PC growth in other countries. For example, Lowies et al. (2017) examined how PC is perceived in Australia and found that investors have a conservative and cautious attitude towards PC, and this has impacted the growth of PC. Lowies et al. (2017) also found that demographic factors impact PC in Australia; younger investors tended to invest more via PC platforms than older investors. A study of PC platforms in Finland found that developers are hesitant to use PC platforms because of the publicity of crowdfunding, which can impact the developer if the

crowdfunded project fails (Bogdanova, 2018). Schweizer and Zhou (2017) found that behavioural factors impact investments on seven leading PC platforms in USA; there is a “home bias” (p.34) pattern of investing behaviour whereby crowdfunding transactions tend to occur between project owners/developers and investors within the same geographic areas. While these studies have examined contextual factors impacting PC in more successful PC markets, this study investigated New Zealand, a nascent and unresearched PC market. This research’s findings extend these prior studies that have examined various contextual factors, such as legislation and behavioural factors, which have shaped the development of PC in other countries.

DIT literature has shown that the disruptive susceptibility of a market influences whether an innovation will impact the market or not (Antonio & Kanbach, 2023; Klenner et al., 2013). Social and market embeddedness, as well as tradition and habit can influence the disruptiveness of an innovation in a particular context (Reinhardt & Gurtner, 2018). Despite the studies that have examined contextual factors impacting innovations, Antonio and Kanbach (2023) posit that DIT does not adequately consider the effect of contextual factors on disruptiveness of innovations.

PC has grown in several overseas markets, yet it seems to be struggling in New Zealand. A few studies have examined how contextual factors in other countries, such as legislation and behavioural factors, have shaped the growth of PC in those countries. However, up till now, no research has explored contextual issues that have influenced the performance of PC in New Zealand. This gap motivated the fourth sub-research question of this study:

Sub-Research Question 4: What contextual factors have influenced the development of property crowdfunding in New Zealand?

1.2.1.5 Response strategies of incumbents to property crowdfunding

Although the PC sector in New Zealand is currently small and nascent, the platforms are undertaking educational activities such as seminars to publicise PC and educate the general public about PC. These efforts may result in the growth of PC in New Zealand in the next few years. Incumbents in the real estate project finance industry such as banks are faced with the emerging technology of PC which has the potential to impact their business. An issue of concern is how the industry may strategically respond to PC. To date, no academic attention has been given to theoretically and empirically examine how the industry in New Zealand can strategically respond to PC.

Prior studies suggest that PC is a possibly impactful or disruptive innovation to the industry (e.g., Gigante & Cozzio, 2021; Schonberger & Koehler, 2017; Wharton, 2015). PC's growth is a potential threat to financial institutions that fund real estate (Chapnick, 2014; Vogel & Moll, 2014). A technology-enabled innovation that facilitates funding real estate projects via online platforms, PC is changing how property is traditionally financed and is likely to impact the industry and the incumbents (Cannon, 2014; Crowe, 2016; Esbaitah, 2016; EY, 2016). PC platforms potentially give developers access to a large capital reserve, i.e., the crowd, who provide equity or debt funding to developers (Hollas, 2013; IPF, 2016; Maarbani, 2015). In mature overseas PC markets, conventional financial organizations such as banks are losing financing deals to PC platforms; projects financed via PC platforms are the type of deals (commercial, industrial, retail, residential) that banks have traditionally funded (Vargo, 2017).

According to DIT, as new innovations improve their products or services to their customers over time, they gradually move up in the market and may eventually impact incumbents' businesses or disrupt them (Christensen, 1997; Christensen & Raynor, 2003; Smith, 2007). DIT postulates that there are several response strategies which incumbents may use when faced with potentially disruptive innovations entering their markets (Adner & Snow 2010; Christensen & Rayonier, 2003; Christensen & Rosenbloom, 1995; Gans, 2016; Raffi & Kampas, 2002). When a new, innovative and potentially impactful or disruptive business model enters an industry, it may exert competitive pressure on incumbents, and the incumbents need to consider how they may strategically respond. Disruptive innovations do not necessarily replace incumbents or threaten their business; incumbents do not always or necessarily lose business to new innovations that enter the industry, but they need to evaluate these new industry entrants and decide if they need to strategically respond, and how to do so (Danneels, 2004). DIT has been applied to various markets that have faced new innovative and potentially disruptive business models over the past several decades (Si & Chen, 2020). Yet, scholars have not yet examined how incumbents in the industry may respond to PC using DIT, the tool for analysing new innovations entering markets (Christensen & Raynor, 2003).

Overall, the literature suggests that PC may impact the industry. It is therefore essential for the industry incumbents to strategize how to respond to PC. To date, no studies have carried out a comprehensive analysis of response strategies the industry incumbents may use, and the implications of these responses. This gap motivated the fifth sub-research question of this study:

Sub-Research Question 5: How may the real estate project finance industry strategically respond to property crowdfunding?

To recap, the overarching research question for this study is:

What challenges and contextual factors are affecting property crowdfunding in New Zealand, and how may the real estate project finance industry strategically respond to property crowdfunding?

The five sub-research questions are:

- 1. What is property crowdfunding?*
- 2. What is the current state of PC in New Zealand?*
- 3. What are the current limitations of property crowdfunding in New Zealand?*
- 4. What contextual factors have influenced the development of property crowdfunding in New Zealand?*
- 5. How may the real estate project finance industry strategically respond to property crowdfunding?*

1.2.2 Research objectives

The objective of the study is to carry out a comprehensive investigation of PC in New Zealand. The study aims to create an in-depth and nuanced understanding of PC in New Zealand, specifically: how PC is defined; PC's current state, limitations of PC platforms, contextual factors impacting PC uptake and growth, and response strategies of incumbents in the real estate project finance industry towards PC. Despite enactment of crowdfunding legislation and subsequent establishment of PC platforms in New Zealand, an in-depth academic investigation of PC is lacking. Looking in detail at New Zealand, and drawing primarily from DIT

(Christensen, 1997; Christensen & Bower, 1996), this study examines PC and how it has performed so far.

The research uses extant literature to develop an initial conceptual framework of PC in New Zealand, which guides the study's research process. Building on this literature-based initial framework, and drawing from primary data gathered from interviews, the study then develops a comprehensive, revised conceptual framework on challenges and contextual factors affecting PC in New Zealand, response strategies of the industry, and recommendations on how to solve the key problems impacting PC platforms. The revised framework is a result of knowledge derived from the literature, updated and refined with data from interviews with diverse stakeholders.

1.3 Overview of research methodology

This study used qualitative methods. PC is still nascent and small in New Zealand, and this created the constraint of lack of time-series data. According to Griffiths (2009), a lack of data justifies using qualitative methods, and influences the type of analysis that can be conducted in a study. The nascent state of PC, and the lack of data, suggest that a qualitative approach, which is exploratory and descriptive, is essential to lay a theoretical foundation for future research on PC as the sector grows in the future. Although lack of data can be a hurdle for doing quantitative data work, Bryman and Bell (2011) argued that it also presents an opportunity to comprehensively explore and elucidate a hitherto under-researched phenomenon.

This study's overarching research question is: *'What challenges and contextual factors are affecting property crowdfunding in New Zealand, and how may the real estate project finance industry strategically respond to property crowdfunding?'* This research question necessitated qualitative methods because 'what' and 'how' research questions are typically inquisitive and exploratory in nature; they facilitate comprehensive analysis of a phenomenon to gain fresh new insights about it. According to Richards and Morse (2012), qualitative methods facilitate in-depth investigation of a poorly understood phenomenon which is also in a transitional process. PC is a little-understood, emerging, and evolving phenomenon in New Zealand. Thus, qualitative methods were chosen for this study because they facilitate a detailed investigation and description of PC, to promote a deeper understanding of it.

Using qualitative methods was also influenced by the overall objective of the study, that is, to construct a conceptual framework on challenges and contextual factors affecting PC in New Zealand, response strategies of the industry, and recommendations on how to solve the key problems impacting PC platforms. Qualitative methods are aligned with the aim of this study, namely, to inductively develop a conceptual framework, rather than deductively test theory. An inductive approach facilitates building theory using data and insights gained from fieldwork. In this study, interviews data was inductively analysed to develop a conceptual framework.

To study PC in New Zealand, the research used qualitative methods to draw upon knowledge, experiences, perspectives of experts across a wide range of stakeholder groups. In-depth, one-to-one semi structured interviews with different key stakeholders were used to collect primary data. Highly informed and experienced senior-level executives who participated in this study fall into four broad categories, namely: (1) property finance lenders, (2) PC platforms, (3)

property developers, investors, and syndicates, and (4) property experts and other related professionals. Substantial secondary data sourced from numerous public and private documents were also used in this study.

1.4 Study significance and contribution

1.4.1 Academic contribution

Property crowdfunding in New Zealand has hitherto attracted no academic attention. This present research advances scholarly understanding of property crowdfunding and disruptive innovation theory. This is a novel study that investigated an emerging and innovative business model of PC, in a unique context of New Zealand. Based on the literature review in Chapter 2, some studies have investigated PC in countries where PC has matured, such as USA, UK, and Europe. In New Zealand, due to the nascent state of PC, there is a lack of scholarly examination of PC, despite many practitioners and media articles grappling with why PC is struggling to grow (e.g., BusinessDesk, 2021; NBR, 2018; NZ Herald, 2016). This study addressed this gap by using qualitative methods and the theory of disruptive innovations (Christensen, 1997; Christensen & Rayonier, 2003) to build a new conceptual framework on the challenges and contextual factors affecting PC in New Zealand, how the industry may strategically respond to PC, and recommendations on how to solve the key problems impacting PC platforms. The conceptual framework advanced in this research provides scholars with a foundation for future study of PC in New Zealand. This research stimulates and advances scholarly research on PC, a rapidly growing, yet under-researched phenomenon.

Although this study investigates a nascent market of PC in New Zealand, its findings and the knowledge it produces offer long-term academic value. In addition to providing current practical value, and having current policy and social implications, the study offers long-term academic value, for five reasons. First, the research used DIT to study the nascent PC sector in New Zealand. DIT scholars have developed and refined the theory through integrating findings from studies that have used DIT in different industries and countries, and they continue to review findings from new studies, to advance and refine the theory (Christensen et al., 2018; Hopp et al., 2018). The present study applied DIT and its tenets and conjectures in a unique innovation of PC, and distinctive context of New Zealand. Therefore, the study's findings are useful to DIT scholars as they work on improving the theory.

Second, and related to the above-mentioned contribution, the study contributes towards helping to address four specific inherent limitations and weaknesses of DIT, namely (a) lack of adequate consideration of contextual factors that affect disruptiveness of innovations (Antonio & Kanbach, 2023), (b) neglect of the role of embeddedness of innovations (Reinhardt & Gurtner, 2018), (c) limited ability to detect and predict a disruptive innovation before it impacts a market (Danneels, 2004; Millar et al., 2018; Tellis, 2006), and (d) scarcity of evidence to justify the generalizability of DIT's conjectures and claims (Danneels, 2004; Govindarajan & Kopalle, 2006b; Tellis, 2006; Utterback & Acee, 2005).

This present study examines in detail contextual factors and local social, market, and cultural factors that have influenced PC's performance in New Zealand, and in doing so contributes towards addressing the contextual and embeddedness factors of DIT. This study contributes towards addressing the inherent limitations and weaknesses of DIT, as presented later in Section 7.3.2. The study achieves this by: (a) identifying a wide range of contextual factors that

have impacted PC, and discovering that New Zealand PC has a particularly high concentration of numerous unfavourable contextual factors in one single market, (b) showing that social and market embeddedness factors in New Zealand have affected PC, (c) supporting the contested predictive ability of DIT through showing that although PC possesses the key characteristics of disruptive innovations as postulated by the theory, this does not necessarily mean that PC will disrupt the industry, due to a wide range of factors uncovered in this study, and (d) by applying DIT in a new context of PC in New Zealand, thereby contributing towards the generalizability of the theory.

Third, by examining how the real estate project finance industry in New Zealand has not been affected by PC so far, this study contributes towards the relatively small literature stream of DIT focused on disruptive susceptibility of markets (Antonio & Kanbach, 2023; Klenner et al., 2013). By examining local social, market, and behavioral factors that have impacted PC, the study contributes towards DIT's literature on social and market embeddedness, and tradition and habit factors that can affect innovations (Reinhardt & Gurtner, 2018).

Fourth, although PC is currently nascent in New Zealand, PC platforms' founders and managers continue to advertise their platforms and educate New Zealanders about PC. There is a possibility that PC will grow in the future, and become a viable tool in the real estate project finance industry in New Zealand. Therefore, this study's findings have long-term value.

Fifth, this study contributed towards building literature on PC, and on real estate project finance. To date, little attention has been given to how PC can impact the industry in New Zealand, or the role PC can play in the property capital stack. For New Zealand particularly,

this gap in knowledge is untenable since real estate is an integral component of the New Zealand economy.

1.4.2 Practical contribution

There are numerous stakeholder groups who have interest in PC in New Zealand. These include PC platform founders and managers, property developers, traditional financial institutions who finance real estate projects such as banks, property investors, and the general public. Information gathered from this research should provide these stakeholders with a greater understanding of PC in New Zealand. Research makes practical contributions through originality, which may be incremental or revelatory, and through utility, which may be practical or theoretical (Corley & Gioia, 2011). This study makes original practice contributions since there has been no in-depth scholarly investigation of PC in New Zealand.

First, for PC platforms' founders and managers, the study offers insights on how their platforms are perceived in New Zealand; the limitations of these platforms, and how they may improve them. The research also informs PC platform managers how they may collaborate with banks in financing real estate projects. Substantial resources – monetary, professional consulting services, human resources, and time – have been injected into the PC sector in New Zealand. The study offers specific recommendations on how to address the problems currently hindering PC growth.

Second, for banks, the study offers insights about the alternative strategic responses they may use towards PC, and their respective implications. The conceptual framework can assist the bank executives to more accurately identify and manage the appropriate response strategy to

PC in their organizations, if/when PC grows in the future. The study informs bank executives about how they may collaborate with PC platforms in financing property projects.

Third, for developers in New Zealand, the findings help to increase the knowledge about PC and thus advance the use of PC as a real estate financing tool. This is helpful to developers who may be having problems in getting finance from traditional sources such as banks. This study provides deeper understanding of the existing PC platforms in New Zealand, and offers specific recommendations for the developers. Fourth, by their very nature, disruptive innovations typically lead to improvements in accessibility, availability, and affordability of products or services in a market they enter (Christensen, 1997; Christensen & Bower, 1996). The study's findings help to understand how PC can be used to improve real estate project finance in New Zealand, especially for small developers who may be financially challenged and/or unable to get finance from banks. This study can help to support more use of PC in New Zealand, which in turn can result in easier access to real estate project finance for small-scale developers.

1.4.3 Policy contribution

This research has policy implications. The insights it offers can be used by the financial regulatory body in New Zealand, the FMA, to amend policies and regulations for PC. The study identifies drawbacks of PC legislation in New Zealand, which are hindering its adoption and growth. The research informs the FMA on how it may amend its regulations accordingly, to assist the adoption and growth of PC in New Zealand.

1.4.4 Social contribution

As PC platforms enable people to contribute small amounts of money to purchase or invest in, and co-own property, the platforms can have a social impact in New Zealand. New Zealand faces housing affordability issues (e.g., McLeay, 2022). PC has been used to address housing affordability and home ownership problems in other countries such as Australia (Sharam & Bryant, 2017) and Malaysia (Chin et al., 2021), among others. Equity crowdfunding platforms offer a venue for impact oriented investors who want to make social impact investments (Yılmaz & Yasar, 2021). Crowdfunding can help to not only raise funding, but also shift the crowd towards impact investing to generate positive social outcomes for communities (Feola et al., 2017). Impact investing in crowdfunding using a public–private partnerships can achieve social good (Lehner and Nicholls, 2017). PC platforms in New Zealand and public–private partnerships can be used to address housing / housing affordability issues. There are opportunities for PC platforms to facilitate impact investing and achieve social good by helping to address housing affordability in New Zealand.

1.5 Structure of the thesis

This thesis is structured into seven chapters, summarised as follows.

Chapter 1 presents study background and rationale for the research topic. The chapter outlines research gaps, questions and objectives; overview of research methodology, study’s academic, practical, policy, and social contributions, and organization of the thesis.

Chapter 2 reviews the literature on the primary theoretical lens used in this study, namely disruptive innovation theory. The chapter also reviews the literature on legitimacy and reputation building of new firms, which is used as a secondary theoretical lens for analysing PC platforms in New Zealand. Relevant literature on real estate finance was reviewed to provide some context for PC as a financing tool. The limited literature on PC was also reviewed. The chapter also presents an initial conceptual framework of challenges and contextual factors affecting PC in New Zealand, and the response strategies of the industry, which was developed using the extant literature. The conceptual framework, in conjunction with the research questions, acted as a foundation and guide for the research process.

Chapter 3 presents an overview of the equity crowdfunding sector in New Zealand, specifically PC, which is the context of this research. The chapter presents an overview of the legislation for PC in New Zealand, as well as profiles of PC platforms operating in the country.

Chapter 4 presents the study's research design including paradigmatic assumptions, research methodology, data collection methods, and data analysis approach. The rationale for qualitative methods used in the study, and the methodological fit, are also provided. An overview of one-to-one in-depth interviews is also presented, including the interview sample and participants, categories of interviewees and interviewees' profiles. The chapter also describes NVivo Software which was used for data management and analysis.

Chapter 5 analyses and interprets data collected from the interviews. The findings are presented under five categories: (i) definition of PC, (ii) current state of PC, (iii) limitations of PC platforms, (iv) contextual factors impacting PC, and (v) response strategies of incumbents towards PC.

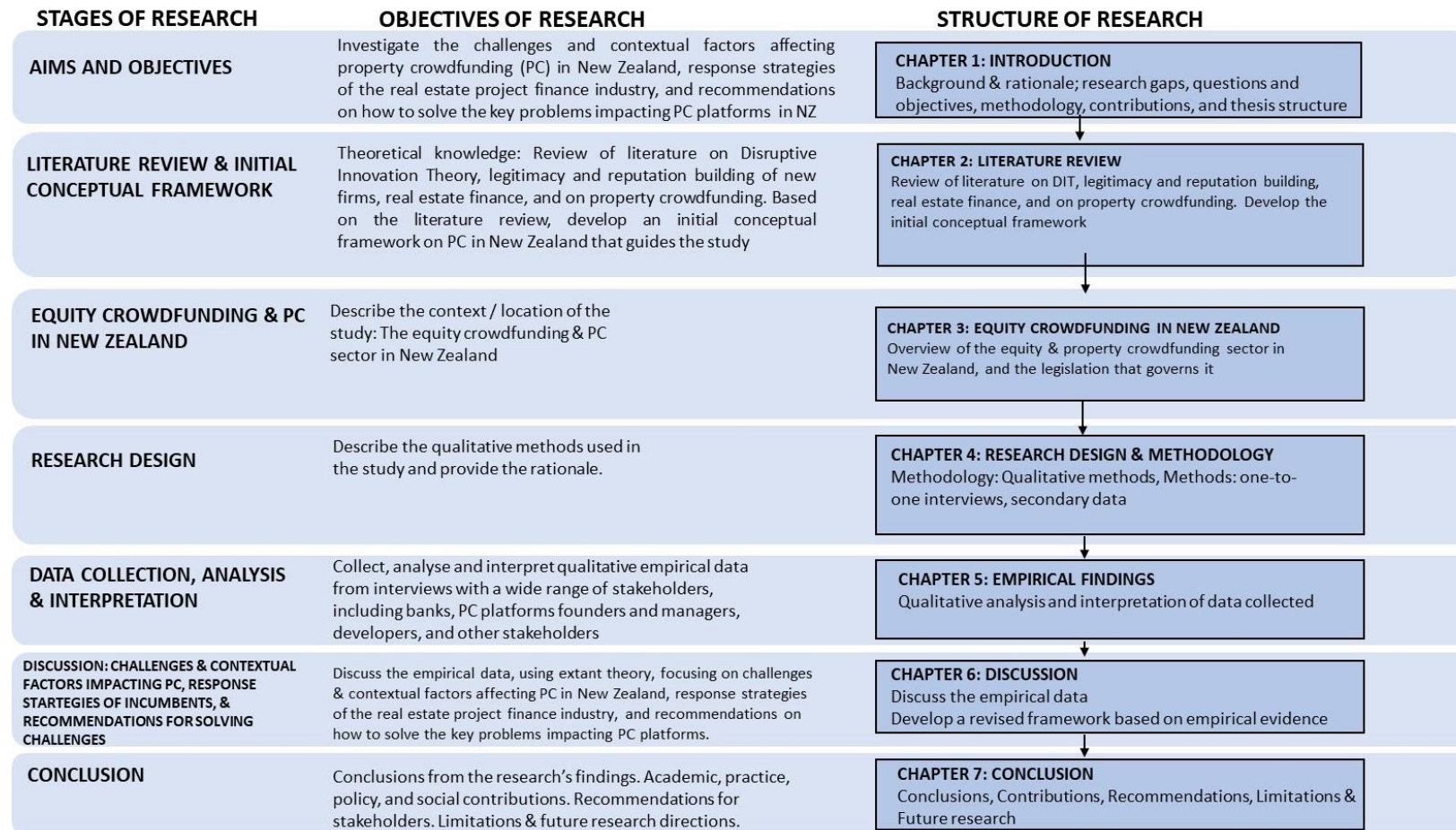
Chapter 6 presents a discussion of the study's findings using literature. The importance of the findings, relative to the research questions, is discussed, under five categories: (i) definition of PC, (ii) current state of PC, (iii) limitations of PC platforms, (iv) contextual factors impacting PC, and (v) response strategies of incumbents towards PC. Since interviews data suggest that PC in New Zealand is facing extensive challenges, the chapter also explains and discusses how platforms in overseas PC markets successfully addressed and overcame some of the limitations and challenges currently impeding the growth of PC, thereby showing that these challenges are solvable for New Zealand. Due to the fact that PC in New Zealand is facing a wide range of challenges and issues which are affecting its growth, and suggesting a rather bleak and unpromising picture for PC in New Zealand, the chapter also analyses and discusses what the future outlook for PC in New Zealand might be. Based on findings from data, a revised conceptual framework on challenges and contextual factors affecting PC in New Zealand, response strategies of the real estate project finance industry, and recommendations on how to solve the key problems impacting PC platforms as identified in this study, is presented.

Chapter 7 concludes the thesis. The study's findings are summarized. The study's contributions to the scholarly fields of DIT, PC, and real estate finance are presented. Contributions to practice are outlined, and this include specific recommendations for PC platforms, developers, banks, and the general public investors. Contributions to policy are presented, and this includes recommendations for the FMA. Social implications of the study are also presented. Study limitations as well as avenues for future research are presented.

Figure 1 illustrates the overall organization and structure of the research. The figure shows the stages of the research, the respective objectives, and the structure of the thesis.

Figure 1

Organization and structure of research



Chapter 2 Literature review and conceptual framework

This chapter presents a detailed review of relevant literature which guided and informed this study. The review outlines the literature in four key topics, as follows. Section 2.1 reviews the relevant literature on disruptive innovation theory (DIT), the main theoretical tool used in this study. Section 2.2 reviews the literature on legitimacy and reputation building of new firms, online platforms, and crowdfunding projects. Section 2.3 provides a brief overview of pertinent real estate finance literature. Section 2.4 reviews property crowdfunding literature. Next, drawing on the reviewed literature, Section 2.5 presents an initial conceptual framework which was created to guide the data collection phase of the research. Section 2.6 concludes the chapter.

2.1 Disruptive innovation theory

DIT was founded after several studies conducted in various industries during the 1980s-1990s (e.g., Bower and Christensen, 1995; Christensen, 1997). DIT explains why and how well-established incumbent businesses may be impacted, or fail, when new entrant firms that offer inferior products or services, but modern technologies, enter the market (Christensen et al., 2015; Denning, 2016). Although the theory was initially developed for technologies, it has since been adopted and applied in numerous subsequent studies to include technological, business model, product, and service innovations (Christensen & Raynor, 2003; Christensen & Overdorf, 2000; Hwang & Christensen, 2008; Si & Chen, 2020). Section 2.1.6 presents some of the industries and contexts in which DIT has been applied. Section 2.1.7 analyses how findings in reviewed literature were obtained and DIT was applied. Section 2.1.8 presents inherent limitations and weaknesses of DIT.

DIT has numerous literature streams. The key streams of the DIT literature that are pertinent to this study are: (i) definitions of disruptive innovations, (ii) disruptive innovations' key characteristics, (iii) contextual factors that impact the uptake or performance of potentially disruptive innovations, (iv) factors that determine incumbents' response to disruptive innovations, and (v) strategies incumbents may use to respond to potentially disruptive innovations entering their markets. The above-stated DIT literature streams are reviewed in the following sections.

2.1.1 Definitions

Disruption

Disruption refers to drastic or fundamental changes that occur in a market or company strategy following the launch of a new technology, business model, service, or product which alters the current market or create a new market (Paap & Katz, 2004). Disruption is something that “interrupts” (Vesti et al., 2017). Disruption suggests substitution, or alteration, of the existing (Christensen, 1997).

Disruptive innovation

A disruptive innovation is a new technology or business model that alters the current situation in an industry, giving rise to new products, services, customers, and markets (Christensen et al., 2015). A disruptive innovation usually has different features or lower performance, compared to products or services currently in the market; it firstly targets the lower part of the market, and then slowly enhances its performance, until it impacts or disrupts incumbent firms

in the market (Christensen, 1997; Christensen & Raynor, 2003; Ho, 2022). A disruptive innovation significantly disrupts or impacts the existing market, and the well-established incumbents, potentially posing a threat to them (Christensen & Raynor, 2003; Si & Chen, 2020). Disruptive innovations create new value propositions and markets, and can displace established companies, products, and services in an industry or market (Bower & Christensen, 1995). Typically, the new product or service enters the market through an under-served segment of the industry (Christensen & Raynor, 2003). Gradually, the new product or service gains market share from established incumbent firms, potentially resulting in failure of the incumbents (Christensen, 1997).

Christensen (2006) states that disruption is a process that takes time to occur. Christensen et al. (2015) state that “the term ‘disruptive innovation’ is misleading when it is used to refer to a product or service at one fixed point, rather than to the evolution of that product or service over time” (p.6). Gilbert (2003), too, states that “disruption is sometimes mistakenly thought of as an all-at-once phenomenon, as if the new technology or business model came out of nowhere to upset the established market” (p. 28). The disruption process may take years, even decades before the new innovation makes a significant impact on mainstream market (Christensen & Rayonier, 2003).

Table 1 presents some definitions of disruptive innovations in the literature.

Table 1*Definitions of disruptive innovations*

Definitions of Disruptive Innovation	Author(s)
“A process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors.”	Christensen, 1997, p.1
Disruptive innovation is “a successfully exploited radical new product, process, or concept that significantly transforms the demand and needs of an existing market or industry, disrupts its former key players and creates whole new business practices or markets with significant societal impact”.	Assink, 2006, p. 218.
Potentially disruptions are “innovations that (1) initially underperform with regard to the dominant performance dimension that mainstream customers have historically valued, (2) add an additional performance dimension, which existing products do not possess, and (3) either address the low end of an established market or are commercialized in emerging or niche markets. The new and additional performance dimension is typically related to a product's size, mobility, convenience, usability or price. The additional performance dimension must fulfil one of these criteria but can violate other criteria”.	Reinhardt & Gurtner, 2015, p. 138.
“The term disruptive innovation implies a new entrant into an industry that eventually ‘disrupts’ the dominant status of the incumbent”.	Ho, 2022, p. 363
“Disruptive innovations are new products, processes or business models that utilize disruptive technologies. Such innovations introduce a different performance package, which is initially inferior to existing mainstream technologies and dominant product attributes that mainstream customers value. Over time, technological advancements and improvements to the disruptive innovation increase the attractiveness of performance packages to mainstream customers. As a result, disruptive innovation alters existing market positions and value networks and displaces established market leaders and their products”.	Geurts et al., 2022, p. 533
“Disruptive innovation often uses new technologies and/or business models and replaces archaic ways of doing business, creating new demands, new competitors and new ways of doing business”.	Suseno, 2018, p. 1.78
“Disruptive innovation [is] a process through which a product or a service takes root in simpler, often poorer quality, application at the bottom of the market and then aggressively moves up the market, eventually displacing existing competition”.	Levina, 2017, p. 550

2.1.2 Disruptive innovations’ key characteristics

DIT literature has identified key characteristics of disruptive innovations (e.g., Christensen, 2006; Geurts et al., 2022; Wessel & Christensen, 2012). Disruptive innovations usually launch new business models that are enabled by technology (Christensen, 1997; Suseno, 2018).

Disruptive technologies are characteristically simpler and offer more convenience compared to existing products/services in the market (Christensen, 1997; Levina, 2017). They are technologically straightforward, and are aimed at consumers who will value a simple product (Christensen et al., 2002). Disruptive innovations typically launch products or services that have deficient or inadequate functionality, or less-than-perfect performance compared to incumbents firms' products or services (Bower & Christensen, 1995; Geurts et al., 2022). When the innovation enters a market, it underachieves on the main attributes and level of quality which customers in the market want and have traditionally valued (Obal, 2013). The new innovation or product/service initially focus on only a niche or lower segment of the market consisting of customers whose needs have been overlooked or neglected by established firms in an industry (Bower & Christensen, 1995; Christensen, 1997). The new innovation aims for consumers who are not appealing to main incumbent firms in the market (Hwang & Christensen, 2008). Although they perform poorly compared to main products in the market, products or services based on disruptive innovations have other features or elements that are valued by neglected, insignificant, or marginal customers in lower end of the market (Danneels, 2004; Yu & Hang, 2010).

Disruptive innovations usually offer a new or different attribute, service, process, or functionality compared to what is currently offered in the industry (Adner, 2002; Christensen, 1997; Geurts et al., 2022; Suseno, 2018). Disruptive innovations bring to a market a new set of performance attributes along which firms in that market may compete (Danneels, 2004; Kostoff et al., 2004). While the above-mentioned characteristics have been identified in the literature as key features of disruptive innovations, some scholars postulate that these characteristics may be typical, but not all are required to qualify a disruptive innovation (Danneels, 2004; Tellis, 2006). In this research, drawing on DIT literature on key characteristics of potentially

disruptive innovations, and legitimacy and reputation building literature reviewed in Section 2.2, the study examined the limitations of PC platforms in New Zealand.

2.1.3 Contextual factors impacting disruptive innovations

DIT literature has examined contextual factors that influence disruptive innovations (Antonio & Kanbach, 2023; Chesbrough, 1999a; 1999b; Huesig et al., 2014; Pinkse et al., 2014; Ruan et al., 2014; Urbinati et al., 2018; Yu & Hang, 2010). These scholars posit that a disruptive innovation's contextual factors, namely characteristics of its external environment at country, institutions, economy, industry, and societal levels, influence the innovation's disruptive potential in its relevant industry. Different contextual factors can cause the same disruptive innovation to progress differently in different countries, and have a big or small disruptive effect. A country's institutional environment (North, 1990) influences the national institutional setting in which a disruptive innovation diffuses, and affects the disruptive impact the innovation may have (Chesbrough, 1999b). Rules and norms in a particular context also influence the ability of disruptive innovations to attract mainstream customers (Pinkse et al., 2014; Yu & Hang, 2010). Differences in regulatory frameworks between countries can cause the same innovation to have different disruptive impact in different countries (Chesbrough, 1999b; Pinkse et al., 2014; Yu & Hang, 2010). Different institutions, regulations, and policies in different countries can promote or inhibit the entry and adoption of disruptive innovations (Huesig et al., 2014). Government policy influences innovation activity in industries because laws and regulations the governments enact may foster or suppress new innovations, which subsequently determine the disruptive impact the innovations may have (Gui et al., 2018; Ruan et al., 2014). Cultural factors in a particular context influence the performance and uptake of a disruptive innovation in that context (Chesbrough, 1999b; Yu & Hang, 2010). Disruptive

innovations' embeddedness in society means that their products or services' uptake is influenced by customer preferences in the different contexts they diffuse (Pinkse et al., 2014).

Legislation, regulatory and operational compliance requirements for new innovations determine whether there is an enabling environment that facilitates the introduction and growth of these innovations, and stringent legislation may hinder innovations' entry and growth (Hang et al., 2011; van den Broek & van Veenstra, 2018). Regulatory frameworks also have an effect on competition in industries; they can create barriers to entry for new firms, and can affect innovation in industries (Rogge et al., 2011; Wessel & Christensen, 2012). Entry and exit barriers in an industry, shaped by economies of scale, cost advantages, access to distribution channels, accessibility of substitute products and services, as well as government policy, can also influence disruptive innovations (Urbinati et al., 2018). Market concentration, which is the number of incumbents in a market and their market shares, is another contextual factor that influence disruptive innovations (Urbinati et al., 2018). A country's financial system and its key components, namely institutions, markets, assets and services, also influence the disruptive effect of new innovations (Chesbrough, 1999b; Urbinati et al., 2018). The level and intensity of competition in a market, which is shaped by the number and size of competitors and the industry's growth, is another contextual factor that impacts disruptive innovations (Urbinati et al., 2018). The size of some markets – be it very large or very small – as well as their structure, can make them immune to competition from disruptive innovations, even with some legislative support for the innovators (Havighurst, 2008).

Products and services of some innovations or business models require governments to proactively set up “public protection levers” (Pinkse et al., 2014, p. 43), that is, regulations or support systems that can protect the innovations in their early phases; enable them to attract

mainstream customers, and withstand competition from established incumbents (Havighurst, 2008). Use of public policy tools to support an innovation in its early stages when it is struggling to break through due to doubt about its potential, can help to build credibility of and trust towards the innovation, and thus help it to grow (Delemarle, 2014).

Due to local contextual factors, the targeted market or customers may reject the products or services being offered by a new innovative business, or they may resist the changes the innovation may bring, and this can influence the level of disruption or impact the innovation may have in a particular context (Konig et al., 2012). Overall, the extant literature suggests that contextual factors influence the degree to which a new innovation has a disruptive effect in a market. This present research drew from DIT literature on contextual factors that impact disruptive innovations to examine how the New Zealand context has influenced the uptake of PC in the country.

2.1.4 Factors that determine incumbents' response to disruptive innovations

2.1.4.1 Ability to respond

Skills and competence

Differences or similarities in competences and skills set between the incumbent firm's current business model, and the disruptive innovation, influence incumbent's ability to respond (Charitou & Markides, 2003; Markides & Charitou, 2004; Yang et al., 2022). Typically, because the disruptive innovation offers a different value proposition to different customers, compared to its traditional customers, the incumbent may lack the skills required to adopt the

disruptive innovation (Sood & Tellis, 2011). It is generally difficult for incumbent firms to abandon their accumulated skills and competence, and known ways of doing business, in favour of new ones (Dewald & Bowen, 2010).

Conflicts between traditional business and new business

The magnitude of differences, mismatch, or incompatibility between the incumbent firm's business model, and the business model of the new disruptive innovation, is a major factor that influence response to disruptive innovations (Charitou & Markides, 2003). DIT literature suggests a variety of conflicts that often exist between traditional and disruptive business models, and risks associated with adopting the business model of a disruptive entrant (e.g., Charitou & Markides, 2003; Yu & Hang, 2010). Adopting the business model of a disruptive entrant can present numerous risks for the incumbent firm, for instance: cannibalizing current customer base (Govindarajan & Kopalle, 2006a); losing sales in the current product/service due to sales of a new product or service in the same firm (Schmidt & Druehl, 2008), and changing customers from high-end tiers of the market to low-margins ones (Charitou & Markides, 2003; Markides & Charitou, 2004). Other risks include damaging the firm's image, brand, reputation and values related to it, and creating confusion (Markides & Charitou, 2004); compromising quality of products/services offered to customers, by attempting to offer everything to everyone (Markides & Charitou, 2004), destroying the culture of the firm, and confusing employees and customers about the firm's priorities (Christensen, 1997), and engaging in activities that are not only different from, but also conflicting with its current activities (Christensen, 1997; Markides, 2006). By adopting a new business model of disruptive innovations, incumbents may legitimize the new business model, which may create an incentive for other incumbent firms to adopt that model (Markides & Charitou, 2004).

Availability of resources

Incumbents' ability to react to a disruptive innovation is determined by the resources they have (Charitou & Markides, 2003). It is difficult for incumbents to allocate resources to disruptive innovations, unless their customers want them (Christensen, 1997). Incumbents typically prioritize investing in sustaining innovations that enable them to improve their current products or services for their existing customers (Christensen, 1997; Denning, 2016; Ho, 2022). Investing in new and unproven innovations is often considered an unwise investment decision (Christensen & Bower, 1996). Due to the unproven, uncertain, and small size of the market targeted by the new innovation, it is often illogical for incumbent firms to allocate or commit resources to the disruptive innovation in the early stages of its market entry (Dewald & Bowen, 2009). Further, the "non-disruptive" nature of disruptive innovation in the short-term cause incumbents to fail to respond in a timely manner (Henderson & Clark, 1990; Schmidt & Druehl, 2008).

2.1.4.2 Motivation to respond

Disruptive innovation's growth rate

The pace at which the potentially disruptive innovation is growing influence incumbents' motivation to react (Charitou & Markides, 2003; Christensen, 1997; Yang et al., 2022). Well-established, leading incumbents in an industry do not consider new, emerging markets a valuable source of growth because they are usually small and often unproven (Charitou & Markides, 2003; Christensen, 1997). As a result, unless the disruptive innovation is growing rapidly, or has grown to capture a considerable portion of the (main) market, it is unlikely to

motivate incumbents to react (Charitou & Markides, 2003). It is often difficult for incumbents to forecast the market for the disruptive innovation due to the newness of the product or service (Christensen, 2007).

Level of threat to incumbent's business

The level of threat which a potentially disruptive innovation presents to the incumbent's business influences its motivation to react (Charitou & Markides, 2003; Dewald & Bowen, 2010; Yang et al., 2022). When the incumbent recognize that their business is at stake, and that the disruption will be costly to their business, they are motivated to react speedily and firmly (Christensen, 2007; Radnejad et al., 2022).

Disruptive innovation's strategic relatedness to the incumbent's business

When the new innovation's business model is strategically related to the incumbent's, the incumbent will be motivated to react (Charitou & Markides, 2003). Strategic relatedness to the disruptive innovation business model can bring about diversification opportunities and competitive advantages for the incumbent (Schmidt & Druehl, 2008; Tellis, 2006).

Overall, to understand the ability and motivation of incumbents in the real estate project finance industry to respond to PC, this study drew from DIT literature on factors that determine incumbents' response to disruptive innovations.

2.1.5 Strategic responses of incumbents to potentially disruptive innovations

A review and synthesis of the literature resulted in identification of five key response strategies which incumbent firms in an industry facing a potentially disruptive innovation may use, as presented in Table 2. These response strategies are:

1. Ignore the disruptive innovation and focus on your existing business model
2. Strengthen your own business and compete on that basis against the disruptive innovation
3. Integrate your own business model and the disruptive innovation's business model
4. Completely embrace and adopt the disruptive innovation and scale it up
5. Attack the disruptor; disrupt the disruption

Table 2

Five key response strategies to disruptive innovations in the literature

#	Response strategies to disruptive innovation	Author(s)
1	Ignore the disruptive innovation and concentrate on current business (Ignore)	Christensen et al (2004); Charitou & Markides (2003); Denning, (2016), Gans (2016); Raffi & Kampas (2002); Yu & Hang (2010)
2	Improve existing business model to better compete against the disruptive innovation (Strengthen own business)	Adner & Snow (2010); Charitou & Markides (2003); Christensen et al., (2004); Markides (2006); Osiyevskyy & Dewald (2015); Schiavone (2011)
3	Integrate your own business model and the disruptive innovation. Adopt the innovation and integrate it with your business model (Integrate)	Charitou & Markides, (2003); Chesbrough, (2007); Christensen et al., (2002); Gans, (2016); Gilbert, (2003); Geurts et al., (2022); Kim & Min, (2015); Markides & Charitou, (2004); Osiyevskyy & Dewald, (2015); Yang et al., (2022).
4	Completely embrace and adopt the disruptive innovation and scale up (Embrace)	Christensen (2007); Charitou & Markides (2003); Gans (2016); Kim & Min (2015); Osiyevskyy & Dewald (2015)
5	Attack the disruptor; disrupt the disruption. Attack back and disrupt the disruption by launching a different type of disruptive innovation (Attack)	Charitou & Markides (2003); Christensen et al., (2004); Gans (2016)

2.1.5.1 Ignore the disruptive innovation

DIT literature suggests that, as a response strategy, incumbents can ignore the disruptive innovation and focus on investing in their traditional business model (Charitou & Markides, 2003; Gans, 2016). The literature offers numerous justifications for this response strategy. A new entrant may introduce a new innovation into a market without threatening or impacting the businesses of established incumbent firms in that industry; the innovation may be in the incumbent's industry, but not its market (Charitou & Markides, 2003). Simply monitoring the market may be an adequate response for the incumbent (Raffi & Kampas, 2002). Further, when a disruptive innovation enters an industry, ignoring may be an apt response because such innovations usually grow rapidly to control only a proportion of the market, but not succeed in completely taking over the market, or replace the traditional way of business (Charitou & Markides, 2003). Incumbents typically have established value chains that cannot be easily imitated, thus they can afford to "buy time" and "wait out" the disruptive innovations and make appropriate response on their own timeline (Gans, 2016).

The literature suggests that incumbents who either (a) focus on serving the needs of the most discerning and demanding, and least price sensitive customers in the industry, or, (b) provide a unique value add, or a personalised service or expertise, may ignore the innovation because it does not threaten their business (Yu & Hang, 2010). Other scholars posit that incumbents may choose to 'cede' the lower-end of the market or the low-value consumers, or the particular niche which the new entrant is targeting, and refocus on core customers, or focus on improving the quality and performance of products/services for its base of high value customers (Christensen, et. al., 2004). Incumbents may ignore potentially disruptive innovations because responding or adapting to an emerging innovation that is occurring and has not yet proved to

be disruptive is nearly impossible (Gans, 2016). However, waiting for too long to respond means that as the new entrants improve their technology or product/service performance, the “entrants may become too strong to beat or too expensive to acquire” (Gans, 2016, p. 88).

The literature also suggests that incumbent firms who choose to ignore the innovation are electing to defend the status quo and existing business model through “defiant resistance” (Osiyevskyy & Dewald, 2015). Some incumbents ignore disruptive innovations because they would require reconfiguration of their business model, value proposition, and profit formula (Christensen, 1997). Incumbents who choose this response strategy are of the view that: “ignore the innovation – it’s not your business” (Charitau & Markides, 2003, p. 59). The literature also suggests that, because disruptive innovations are typically “non-disruptive” in the short-term, incumbents characteristically fail to respond in a timely manner; they fail to identify the potential threat the new innovation poses (Christensen & Rayonier, 2003; Schmidt & Druehl, 2008).

2.1.5.2 Strengthen your own current business model

The literature suggests that another response strategy incumbents may use when a disruptive innovation enters the industry is to strengthen their own business model by investing in their current products and services, and upgrade the traditional way of doing business, and compete against the disruptive innovation on that basis (Adner & Snow, 2010; Charitou & Markides, 2003; Markides, 2006). Incumbents can choose to focus on and invest in their traditional businesses and advance their competitive position relative to the new way of doing business (Christensen et al., 2004). Further, if the new innovation makes no economic sense for the incumbent, improving its current business model may be a suitable response (Markides, 2006).

Prior research also suggests that incumbent firms may choose “pure exploitation”; they strengthen their current business model without adopting the disruptive business model (Osiyevskyy & Dewald, 2015). Through exploiting the firm’s resources, competences, and existing business model, the incumbent firm undertakes incremental improvements in its products or services to meet the needs of the upper segments of the market, or differentiate itself, thereby protecting itself from inferior disruptors (Christensen 1997). The literature also suggests that, after a disruptive innovation has become too visible and popular to ignore, most of the incumbents in an industry tend to choose this strategy of strengthening their own business model (Christensen 1997).

2.1.5.3 Adopt the innovation and integrate it with your business model

The literature suggests that yet another response strategy to a disruptive innovation is adopting the innovation and integrating it with incumbent’s own business model, thereby “playing both games at once” (Charitou & Markides, 2003, p. 60). Adopting the innovation can serve as a powerful engine for growth for incumbents (Christensen et al., 2002). Incumbents can adopt the disruptive innovation and adapt it to fit with their current competencies (Osiyevskyy & Dewald, 2015). Integrating the disruptive innovation into the incumbent’s existing business model can bring about competitive advantages and synergies that can strengthen the two business models (Osiyevskyy & Dewald, 2015).

Incumbents may adopt the disruptive business model or technology, and commercialize it in various ways (Chesbrough, 2007). For example, incumbents may set up a separate business unit to concentrate on the innovation; they may incorporate the innovative model into the

existing organization, or create a different and unconnected company, or diversification (Charitou & Markides, 2003; Markides & Charitou, 2004). Markides and Charitou (2004) postulate that firms can operate two distinct models in one market; separating the new business from the old is only necessary if there are conflicts and strategic dissimilarities between the models. Before combining a new model with the existing one, an incumbent firm must analyse the extent to which its assets are complementary, or conflicting to the disruptive innovation (Kim & Min, 2015).

Gans (2016) propose the “join them” strategy which can be achieved through acquisition, licencing agreements, or cooperation with the disruptive innovation firm. An incumbent purchases the new entrant’s business and its products or services as soon as the innovation is perceived to be a threat. By acquiring the new entrant, direct competition with the entrant, or disruption, can be evaded. Gans (2016) also states that if the disruptive technology is very different from the incumbents’ business, there may be high costs when integrating the new innovation or technology into the business. When costs of integrating are too high, cooperation with the entrant may be more advantageous (Gans, 2016).

2.1.5.4 Embrace the disruptive innovation entirely and scale it up

Incumbents may abandon their current business model and completely embrace or adopt the new innovation or technology and scale it up (Charitou & Markides, 2003). The incumbents imitate, and then scale up and expand the disruptive innovation. Gilbert et al. (2012) posit that by embracing the innovation, incumbents discard their existing business model, and this means incumbents may lose any advantages the old model still has, and it may take long to generate similar revenues with the new model. Christensen (1997) points out that entering a new

emerging market when it is still small and unattractive to large firms in the industry will give the early adopters an early mover advantage.

Incumbent firms who choose this strategy are using a “pure exploration” strategy (Osiyevskyy & Dewald, 2015). They see potential, and a favourable future outlook in the disruptive innovation, thus they embrace it completely, without concurrently growing their existing business model, or trying to assimilate the disruptive business model with their traditional business model. Along similar lines, Gans (2016) posits that incumbents can adopt the “beat them” strategy by aggressively investing in the innovation with the intention of taking control of the innovation, and the market. This response strategy is typically exclusively chosen by, and suited to very young incumbent firms or newcomers in the industry, who are still small and nimble or flexible (Osiyevskyy & Dewald, 2015).

2.1.5.5 Disrupt the disruption, ‘attack’ the disrupter

Established incumbents can respond to a disruptive innovation by disrupting it: “disrupt the disruption” (Charitou & Markides, 2003, p. 60). As the disruptive innovation offers new, different, and unconventional products or services, incumbents may respond by introducing another, different type of disruptive innovation (Charitou & Markides, 2003). When facing a disruptive innovation, incumbents may choose to disrupt it by developing new, different products with different characteristics (Charitou & Markides, 2003). Christensen et al. (2004), too, posit that incumbents may ‘fight’ the attack from disruptive innovations by using their internal resources to follow: (a) a growth-driven strategy of introducing a modified version of their core product, or (b) a defensive strategy of introducing a new product into the lower

segment of the market, thereby prevent the new entrant from entering the main market, or limit the entrant's growth.

In this research, drawing on the DIT literature on strategic responses to potentially disruptive innovations, the study examined how financial institutions in the industry may strategically respond to PC.

2.1.6 Empirical studies supporting DIT

2.1.6.1 Disruptive innovations research in real estate industry

There is evidence which demonstrates that DIT has been proved to be successful and effective; the theory's tenets, predictions, and conjectures have been supported by observations from real-world data. A few studies have used DIT to examine innovations in the real estate industry. For example, Dewald and Bowen (2010) applied DIT to Canada's real estate brokerage industry and found evidence that supports DIT's tenets on how incumbents facing disruptive innovations are expected to strategically respond. Following Dewald and Bowen (2010), Osiyevskyy and Dewald (2015) also studied Canada's real estate brokerage industry, using data from nearly 250 companies, to study incumbents' strategic responses to disruptive innovations from technologies based on increased use of the Internet and e-business platforms. Osiyevskyy and Dewald (2015) found evidence that supported responses to emerging innovations as postulated by DIT. In another study, drawing on DIT, Enstrom and Paulsson (2020) used data from Swedish commercial real estate owners, to study whether "space-as-a-service" (p. 1) is a potentially disruptive innovation to the Swedish property market. The authors found supportive evidence that, as per the DIT tenets on disruptive innovations' key

characteristics, space-as-a-service is disruptive to the real estate industry in Sweden (Enstrom & Paulsson, 2020). Veuger (2018) used DIT to analyse how blockchain technology may impact the value chain in the property industry. These and other studies have shown that DIT has been successful in studying new innovations in the real estate industry. This justified using DIT in this present research to investigate the emergence of PC in the real estate projects industry in New Zealand.

2.1.6.2 Disruptive innovations research in other industries

Beyond real estate, a review of the literature indicated that scholars have used DIT and data to examine changes that have occurred in various industries due to disruptive innovations entering those industries. For instance, in the photography industry, Lucas and Goh (2009) used DIT to examine how the traditionally analogue photography company Kodak (Eastman Kodak Company) was disrupted by digital photography revolution, leading to its failure. Using Kodak data, Lucas and Goh (2009) demonstrated that DIT accurately explains how an organization can fail to strategically respond to a new market entrant offering transformational technology, products and services that threaten the traditional business model. In the newspaper industry, using several data sets (i.e., circulation, revenue, number of employees) from daily newspaper companies in USA, Karimi and Walter (2015) used DIT to investigate digital disruption of the newspaper industry, and, accurately showed how the century-old newspaper industry suffered digital disruption due to the Internet and digitization, resulting in tens of thousands of job losses and significant decline in revenue.

In the healthcare industry, several studies applied DIT to examine how disruptive innovation might help to transform and improve the American healthcare system (e.g., Christensen et al.,

2000; Christensen et al., 2009; Kushins et al., 2017). In the higher education industry, Christensen et al. (2003) and Christensen and Eyring (2011) examined how disruptive innovations are impacting the industry. Flavin (2012) examined disruptive technologies in higher education. Jacoby (2014) used DIT to examine the effect of massive open online courses (MOOC) on higher education. Guttentag (2015) and Guttentag and Smith (2017) analysed the disruptive impact of Airbnb in the tourism accommodation and hotels sectors, and found evidence supportive of DIT and its core tenets. Kapoor and Klueter (2015) used data from 50 largest global publicly traded pharmaceutical firms to demonstrate that DIT can accurately describe incumbents' response to disruptive innovations. Christensen and Tedlow (2000) applied DIT to the retail industry, and the study's findings supported DIT.

2.1.7 Analysing how findings in reviewed literature were obtained and DIT was applied

To further support the use of DIT in this study, Table 3 below presents how findings from selected literature were obtained, and how DIT was applied. These studies conducted in numerous industries and countries have tested the core assumptions and predications of DIT, and have shown the effectiveness of the theory in analyzing new innovations. For instance, a study by Enstrom and Paulsson (2020) tested DIT's core characteristics of disruptive innovations against space-as-a-service in order to examine its disruptive potential. The study conducted structured and semi-structured interviews with 33 largest commercial real estate owners in Sweden, and found that space-as-a-service meets the key characteristics of a disruptive innovation as outlined by DIT.

Table 3

Analysis of how findings were obtained and DIT applied in selected studies

Author(s) and Year	Title	Industry/Sector	How findings were obtained	How DIT was applied and the findings
Enstrom and Paulsson (2020)	<i>Space-as-a-service: A disruptive concept for the real estate industry?</i>	Commercial real estate	A qualitative approach was used, structured and semi-structured interviews conducted with 33 largest commercial real estate owners in Sweden.	DIT's core characteristics of disruptive innovations were tested against space-as-a-service to examine its disruptive potential/disruptive signs. The study found that space-as-a-service meets the key characteristics of a disruptive innovation, suggesting that it will have a disruptive impact in the commercial real estate industry.
Osiyevskyy and Dewald (2015)	<i>Explorative versus exploitative business model change: The cognitive antecedents of firm-level responses to disruptive innovation.</i>	Real estate brokerage	Questionnaire survey conducted with 126 real estate brokers in Alberta, Canada.	DIT's response strategies were used to examine how small incumbent firms respond to innovative online discount brokers. Incumbents' response were consistent with DIT's response strategies.
Lucas and Goh (2009)	<i>Disruptive technology: How Kodak missed the digital photography revolution.</i>	Photography	Secondary data from Kodak (e.g., annual reports, company documents pertaining to its marketing and strategy), and interviews with Kodak employees.	DIT's response strategies were tested against Kodak's response to digital photography. Kodak's failure to respond to digital photography led to the company's demise, thereby confirming DIT's tenets, predictions, and conjectures.
Guttentag (2015)	<i>Airbnb: Disruptive innovation and the rise of an informal tourism accommodation sector.</i>	Tourism	Secondary data on Airbnb.	DIT's tenet which states that disruptive innovations typically offer a new or different attribute, service, process, or functionality compared to what is currently offered in the industry was applied to Airbnb, and confirmed.
Urbinati et al. (2018)	<i>An exploratory analysis on the contextual factors that influence disruptive innovation: The case of Uber.</i>	Taxi	Secondary data on Uber and interviews	DIT's characteristics of the context in which a disruptive innovation occurs were used to examine the impact of Uber on the taxi industries in four different cities, namely San Francisco, New Delhi, London, and Milan. Uber unfolded differently in these cities due to their respective contextual factors.

In another study, Osiyevskyy and Dewald (2015) applied DIT's response strategies to investigate how small incumbent real estate brokers in Alberta, Canada may respond to innovative online-based discount brokers. The study conducted a questionnaire survey with 126 real estate brokers. It found that incumbents perceived online discount brokers as both a threat and an opportunity, and responded with monitoring the new entrants in the short-term, and considering adopting the new model in the long term, which is consistent with the DIT literature (Osiyevskyy & Dewald, 2015).

Lucas and Goh (2009) tested DIT's response strategies to disruptive innovations against Kodak's response to digital photography in order to analyze why Kodak failed. Lucas and Goh (2009) used secondary data and interviews and concluded that Kodak failed to respond to digital photography, resulting in the company's failure, thus confirming DIT's tenets, predictions, and conjectures. Guttentag (2015) used secondary data on Airbnb to analyse DIT's tenet which states that disruptive innovations typically offer a new or different attribute, service, process, or functionality compared to what is currently offered in the industry (Adner, 2002; Christensen, 1997). Guttentag (2015) confirmed the validity of DIT's tenet by showing that although Airbnb lacks what has been traditionally valued in the hotel tourism industry (e.g., brand reputation, security, quality service), Airbnb appeals to tourists because it offers new benefits which traditional hotels do not offer, namely a feeling of staying in a home, access to practical home amenities such as a full kitchen, hosts who can provide some local advice, and cheaper accommodation. Urbinati et al. (2018) used DIT literature on contextual factors that influence disruptive innovation to examine Uber's disruptive impact in four cities, namely San Francisco, New Delhi, London, and Milan. Urbinati et al. (2018) confirmed DIT's contextual factors that influence disruptive innovations by showing that Uber performed differently in the four cities due to their respective contextual factors.

Overall, a review of the several streams of the DIT literature, as presented in the preceding sections, provided a foundation for examining PC in New Zealand. PC is considered a potentially disruptive innovation (e.g., Cannon, 2014). Yet, to date, no studies have used the DIT lens to examine PC in New Zealand, despite the existence of several PC platforms. This gap in knowledge has motivated this research on PC in New Zealand. New Zealand was selected as the study focus due to its peculiar contextual factors, as described in Chapter 1, which make the country not only an informative and practically useful, but also theoretically generative research context. DIT is a relatively young theory that has grown and improved in terms of its accuracy through being applied, substantiated, and verified in a wide range of contexts and industries during the past few decades (Antonio & Kanbach, 2023; Christensen et al., 2018). The previous DIT literature, and the studies that have applied DIT in different contexts and industries, informed this study. This research contributed a new context and industry to which DIT has been applied and tested, thereby assisting in improving the theory.

Despite the efficacy of DIT, the theory has some limitations and weaknesses, as presented in the following Section 2.1.8.

2.1.8 Inherent limitations and weaknesses of DIT and improvements

DIT literature has acknowledged that the theory has some limitations and weaknesses. Christensen et al. (2018) state that “vibrant debates have arisen around the theory of disruptive innovation—from the existence and prevalence of disruption, to the way it gets measured and assessed, to its applicability in different industries” (p. 1051). Along similar lines, Antonio and Kanbach (2023) state that “since its inception over two decades ago, the theory of disruptive innovation has sparked heated discussions”, and scholars have consistently conducted research on disruptive innovations “to resolve discussions about the validity of the theory” (p. 1). Similarly, Hopp et al. (2018) argued that over the past decade, research has “stimulated fertile discussions about the limitations of disruptive innovation theory”, and, subsequent scholarly works have “offered possible remedies, thereby advancing theory development.” (p. 448).

In an effort to address the weaknesses of the theory, DIT scholars have tested and substantiated the assumptions and predictions of DIT in a wide range of innovations and industries during the past decades (Antonio & Kanbach, 2023; Christensen et al., 2018; Si & Chen, 2020). DIT scholars have consistently sought to improve the theory using findings from studies that used DIT in various innovations, industries, and countries.

The four main limitations of DIT, and studies that have sought to improve these limitations, are presented below.

- *DIT does not adequately consider the influence of contextual factors on the disruptiveness of innovations.* When Christensen (1997) first advanced the theory of disruptive innovations in his seminal book ‘*The innovator’s dilemma: When new technologies cause great firms to fail*’, he conceptualized the theory from a purely market perspective. Christensen (1997) assumed that the principles and conjectures of DIT were applicable to all types of industries, innovations/technologies, companies, and countries. Further, early scholarly works on DIT were focused on the process of disruption, and internal resources and strategies of organizations for managing disruption (Christensen, 1997; Christensen & Raynor, 2003). Soon after the inception of the theory, scholars using DIT began to find that the same innovation can disrupt a market in one country, but fail in another country. For instance, Chesbrough (1999a) conducted a study which showed that although the hard disk drive technology disrupted firms in the USA, the same technology did not disrupt firms in the same industry in Japan, due to contextual environmental factors. To address this limitation, during the past two decades, DIT scholars have conducted numerous studies that have identified contextual factors that can influence innovations. These include: demand conditions that influence the success of the new innovation (Adner, 2002), the environment and the market (Mahto et al., 2020), and geographical factors (Corsi & Di Minin, 2014; Gilbert, 2012; Govindarajan & Trimble, 2012).

Over the years, DIT has accumulated literature on characteristics of the context in which a disruptive innovation unfolds, and this has helped to improve the theory. DIT literature has acknowledged that researchers must treat the contextual environment as one of the most decisive and influential factors in determining the disruptiveness of a new innovation (Antonio & Kanbach, 2023; Si & Chen, 2020). Antonio and Kanbach (2023) argue that DIT does not sufficiently consider the influence of contextual factors that can impact the

disruptiveness of innovations, yet, it is not only the features of the innovative technology that determines disruption. Section 2.1.3 in this thesis has reviewed studies on contextual factors that are pertinent to this research. This study's contribution towards improving DIT's contextual factors of disruptive innovations is presented in Section 7.3.2.

- ***DIT overlooks the role of embeddedness.*** The original assumptions of DIT did not consider the role of embeddedness of the innovations (Reinhardt & Gurtner, 2018). Embeddedness is defined as “the degree to which a product is anchored in the social, market and technological system of the user” (Reinhardt & Gurtner, 2018, p. 268). Disruption is contingent on the extent of pervasiveness and embeddedness of the innovation (Reinhardt & Gurtner, 2018). Parry et al. (2012) investigated technology acceptance and found that consumers' views of usefulness of an innovation in their social system influence its acceptance; consumers can reject new innovations that are not suited to their social system. Intended users of an innovation can engage in passive innovation resistance whereby, due to habit and tradition in their social environment, they show “status quo satisfaction” and resist a new innovation (Heidenreich & Handrich, 2015, p. 878). The process of embedding an innovation into the norms of a society requires a large number of society members to use the innovation (Reinhardt & Gurtner, 2018). Guo et al. (2019) argued that the parameter of embeddedness of disruptive innovations is qualitative and more scholarly work is required to improve its measurement and analysis. This study's contribution towards improving DIT's embeddedness of disruptive innovations is presented in Section 7.3.2.
- ***DIT lacks predictive ability; its ex-ante detection of disruption has been contested.*** Christensen et al. (2018) state that one of the main criticisms of DIT is “whether disruption is a concept that can only be experienced after the fact. That is, does it allow for ex-ante

prediction (rather than just ex-post explanation) about whether a particular innovation will eventually challenge leading incumbents” (p. 1051). Scholars have challenged DIT’s ability to detect and predict a disruptive innovation before it impacts an industry (Danneels, 2004; King & Baatartogtokh, 2015; Millar et al., 2018; Markides, 2006; Tellis, 2006). These scholars argued that DIT lacks the ability predict the potential disruptiveness of an innovation before it actually disrupts a market or industry. It is challenging to ascertain if a disruption will happen before the actual disruption mechanism starts, as postulated by DIT (Danneels, 2004; Raffi & Kampas, 2002).

DIT scholars have since made several efforts to improve the predictive ability of DIT (e.g., Gaigher et al., 2014; Govindarajan & Kopalle, 2006b; Hang et al., 2011; Keller & Husig, 2009; Sood & Tellis, 2011). For instance, Govindarajan and Kopalle (2006b) examined how ex-post measures of disruptiveness can be used to make ex-ante predictions of potentially disruptive innovations. Sood and Tellis (2011) developed a model for predicting disruptive innovations. Gaigher et al. (2014) examined the predictive value of DIT using a case study of digital publishing in the traditional publishing industry and confirmed DIT’s predictive capability.

In more recent years, other scholars have sought to improve DIT’s ex-ante predictive power by using indicators from findings of ex-post studies. In other words, by using ex-post findings of disruptive innovations, scholars have generated indicators, characteristics, tools, assessment frameworks, and criteria that can be used for ex-ante prediction of disruptive innovations (e.g., Cheng et al., 2017; Dotsika & Watkins, 2017; Guo et al., 2019; Momeni & Rost 2016; Rasool et al., 2018). Dotsika and Watkins (2017) developed a disruptive innovation detection framework that can be used for ex-ante prediction of

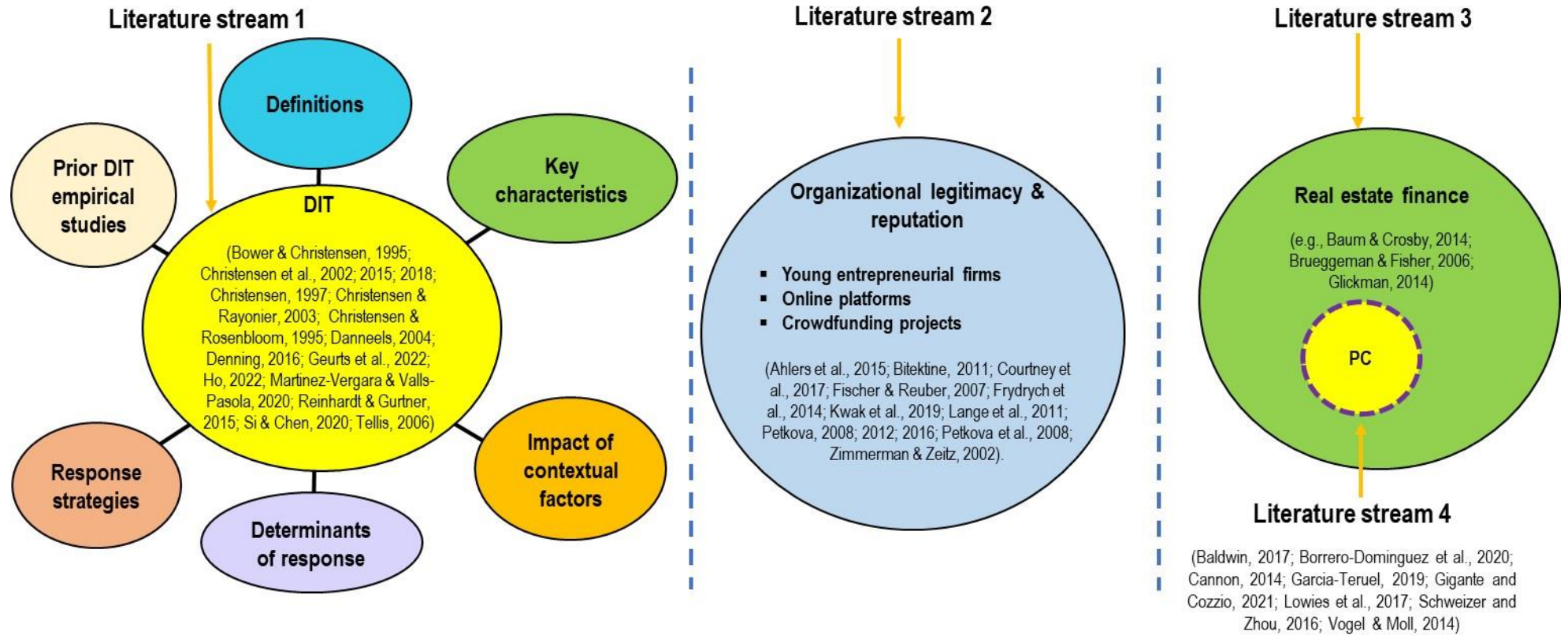
potentially disruptive innovations, that is, a tool for forecasting potentially disruptive innovations. Rasool et al. (2018) developed a framework that can be used to identify potentially disruptive innovations in the early stages of market entry. To address DIT's limitations in predicting disruptive innovations, scholars have and continue to develop new frameworks and indicators to improve the theory's predictive capability. DIT scholars constantly review recent DIT studies in new contexts, critique the theory, and suggest improvements (Hopp et al., 2018; Martínez-Vergara & Valls-Pasola, 2021; Reinhardt & Gurtner, 2018; Si & Chen, 2020).

- ***The assumptions, conjectures and claims of DIT have limited generalizability due to paucity of empirical evidence.*** During the early stages of the introduction of DIT, scholars argued that there is a scarcity of evidence to justify the generalizability of DIT's conjectures and claims (Danneels, 2004; Govindarajan & Kopalle, 2006b; Tellis, 2006; Utterback & Acee, 2005). Danneels (2004) argued that there was insufficient supporting evidence for the theory, and called for new scholarly works on "comprehensive list of technologies" to investigate the "mechanisms and effects" of innovative technologies on firms and industries (p.246). This criticism triggered numerous studies testing the assumptions and conjectures of DIT in various industries during the past two decades, some of which have been reviewed in this study. As a result, the criticism of DIT's generalizability has weakened over the years (Christensen et al., 2018; Si & Chen, 2020). DIT literature reviews by Christensen et al., (2018) and Si and Chen (2020) present prior studies conducted in various industries and countries globally. During the past two decades, DIT's key tenets and conjectures have been tested and proven in a wide range of industries, thereby providing supporting evidence for the theory, and increasing its generalizability.

To overcome the inherent weaknesses of DIT, this study reviewed numerous studies that used DIT in real estate and other industries. Further, the study drew from four literature streams, namely DIT, legitimacy and reputation building of new firms, real estate finance, and PC literature, as illustrated in Figure 2 below.

Figure 2

Four literature streams used to guide the research



2.2 Legitimacy and reputation building of new firms

PC platforms are young entrepreneurial firms with an online platform business model; they offer a new way of raising finance for real estate projects. Thus, there is a need to understand how their performance and acceptance may be impacted by their legitimacy and reputation as young firms, or lack thereof. Thus, in addition to DIT, organizational theory literature, specifically organization legitimacy and reputation building (e.g., Lange et al., 2011; Petkova et al., 2008; Zimmerman & Zeitz, 2002), and legitimacy building in crowdfunding (e.g., Frydrych et al., 2014; Kwak et al., 2019) have also been reviewed, as follows.

2.2 Legitimacy and reputation building

2.2.1 Legitimacy and reputation building of young entrepreneurial firms

Prior research has shown that new and young entrepreneurial firms require legitimacy and reputation in order to survive and grow, and these firms typically face the problem of reputation building (e.g., Petkova, 2012; 2016; Petkova et al., 2008; Zimmerman & Zeitz, 2002). As start-ups without established brand, identity, or reputation, new business ventures need to develop their initial reputations by investing in social and human capital, as well as product development (Petkova et al., 2008). This can then help them to grow the overall reputation of their business; improve their product quality, build close relationships with their customers, and build local reputation. New and young entrepreneurial firms are typically surrounded by uncertainty, and this may cause the firms to be negatively appraised by the market (Petkova, 2012). An organization's reputation is an important resource developed from its previous actions and achievements, and its ability to provide value to a wide range of stakeholders

(Petkova, 2012). Building reputation requires time and resources, and, as a result, new firms usually do not have strong reputations of their own (Petkova, 2012). Typically, new firms do not have the resources required to invest in reputation-building to signal their quality (Petkova 2012). New firms can build their reputation through their own actions and initiatives, or they can “borrow” reputation by associating with more established firms, or they can get their reputation “endowed” from their founders’ backgrounds and reputation (Petkova, 2012).

Legitimacy represents a social assessment of the acceptance, appropriateness, competency, desirability, and worthiness of a new firm in the market (Zimmerman & Zeitz, 2002). Legitimacy is a crucial resource for new firms’ survival and growth, yet it is not automatically acquired or achieved by the firms at the outset (Zimmerman & Zeitz, 2002). Rather, new firms must go through the process of legitimation which helps them to get over their “liability of newness”, and become an established business venture (Zimmerman & Zeitz, 2002, p. 414). New firms that attain legitimacy and social acceptance are more likely to survive and grow, than those that fail to do so.

A firm’s reputation is based on social approval of it, and the public recognition it receives (Lange et al., 2011). A firm must engage in communication and marketing activities to create, maintain, and grow its reputation with the goal of “being known”, “being known for something”, and achieving “general favourability” (Lange et al., 2011, p. 155). This refers to an organization’s general visibility; visibility and prominence in a specific industry or amongst specific targeted audience, and generally being perceived as attractive, good, and apt (Lange et al., 2011). Legitimacy assessment of an organization is a social judgement that “exists in the eye of the beholder” (Bitektine, 2011, p. 151; Zimmerman & Zeitz, 2002, p. 416). Bitektine (2011) noted that an organization’s reputation depends on social judgements of the

organization; yet the evaluators make their social judgements based on bounded rationality, and this affects the legitimacy of organizations.

Logically, new, young, start-ups do not have any legitimacy or reputation in the market. As soon as a new firm enters the market, both positive and negative signals are received about it by its stakeholders (Fischer & Reuber, 2007). A new firm's reputation is formed through reputational signals (positive or negative) it gives from the outset; thus, new firms must manage their reputation formation well before they establish a track record (Fischer & Reuber, 2007). They must actively manage their first impressions to ensure positive initial evaluations. New entrants likely start with a poor reputation because they are perceived as untrustworthy; thus, lack of trust among stakeholders can be a main liability of newness (Fischer & Reuber, 2007).

2.2.2 Legitimacy and reputation building of online platforms

Legitimacy building is essential for the acceptance of technological and platform-based new ventures (Kwak et al., 2019). Legitimacy building is vital for online, Internet-based platforms' development. A new firm seeking acceptance of its platform, or its technology, must build its market, relational, and social legitimacy among stakeholders (Kwak et al., 2019). Market legitimacy enables new firms to establish and maintain the rights and credentials to do business in a particular market, and obtain recognition from key stakeholders in the market (Dacin et al., 2007; Kwak et al., 2019). New firms need to build relational legitimacy which is their "worthiness to be a partner" (Dacin et al., 2007, p. 175; Kwak et al., 2019, p. 117). New firms need to send strong signals to stakeholders that they are worthy to conduct business with; this will help them to develop more "interorganizational relationships" (Dacin et al., 2007, p. 175). This perceived worthiness in turn helps new firms to improve their trust and reliability; gain

trust and reliability from the stakeholders, and overcome the liability of newness, all of which will enable the new firms to grow and succeed in a new market. Relational legitimacy is particularly important for platform firms which typically have many stakeholders including two different user groups of the platform's two-sided markets (Kwak et al., 2019). An enhanced relational legitimacy can help platforms to attract more users and increase their trust, for both user groups (Kwak et al., 2019). New platform-based firms need to develop social legitimacy in their socio-institutional environment (Kwak et al., 2019). New firms operate within a wider social and institutional context that has its own particular societal norms, rules, and expectations that indicate economic behaviour considered socially acceptable (Dacin et al., 2007; Kwak et al., 2019). Social legitimacy indicates that a new firm conforms to social rules and expectations of its environment, and this leads to social acceptance by stakeholders (Kwak et al., 2019).

Using China's e-commerce platform Alibaba, Kwak et al. (2019) postulate that platform firms need to develop market, relational, and social legitimacy. These will enable the firms to achieve industrial development, characterised not only by the acceptance of the technology, but also acceptance of the platform (Kwak et al., 2019). New e-commerce firms and their technologies need to develop legitimacy in their particular institutional environment; in turn, this will enable them to attain social, political, and technological acceptance, leading to creation of a new industry (Kwak et al., 2019).

Platform firms operate in online space where transaction behaviour is likely to be different from traditional businesses; therefore, the technology must be accepted by users within the relevant social context and institutional environment (Kwak et al., 2019). Prior research has shown that some technological innovations have been rejected by intended users (Bergek et

al., 2008). A new innovative e-commerce firm's ability to gain social trust, acceptance, and legitimacy is influenced by the particular society, country characteristics, and institutional environment in which it is located (Kwak et al., 2019).

2.2.3 Legitimacy and reputation building for crowdfunding projects

While the studies reviewed above have examined legitimacy-building at platforms-level, a related stream of research has examined legitimacy-building at the level of projects seeking funding on platforms, focusing on legitimacy and signaling at project-level on crowdfunding platforms. These studies have examined how projects seeking funding on platforms create and show organisational legitimacy by having certain project characteristics that send legitimating signals and thus ensure successful crowdfunding (e.g., Frydrych et al., 2014). For example, a project's team composition and characteristics is very important in signaling organizational legitimacy (Frydrych et al., 2014). Further, providing supplementary information about the organization or entrepreneurial venture seeking funding; its founder, and management team, add legitimacy to the project, and consequently help to attract more funders (Frydrych et al., 2014).

Crowdfunding platforms are characterised by information asymmetries; they are fraught with concerns about information availability and full information disclosures (Ahlers et al., 2015; Courtney et al., 2017; Mollick, 2014). Because crowdfunding presents information challenges, project owners must provide detailed and reliable information to potential funders to help them appraise the crowdfunding projects. Project sponsors can send signals to the "crowd", that is, potential funders, about the quality of the project through the information they provide, such as the project sponsors' educational background (i.e., human, social and intellectual capital of

the project sponsors); the firm's capability to execute the project, detailed information regarding the project as well as the firm, financial projections, and risks involved (Ahlers et al., 2015; Courtney et al., 2017). Providing this information can ensure crowdfunding success. Ahlers et al. (2015) report that providing financial projections for the project; information about the risks of the project, as well as information about the human capital and internal governance of the project sponsor firm, are all effective signals that can induce the crowd to support a crowdfunding project, resulting in a successful crowdfunding campaign.

The literature on legitimacy and reputation building by young firms, online platforms, and crowdfunding projects, as presented in the preceding sections, provided a background for examining the performance of PC platforms in New Zealand.

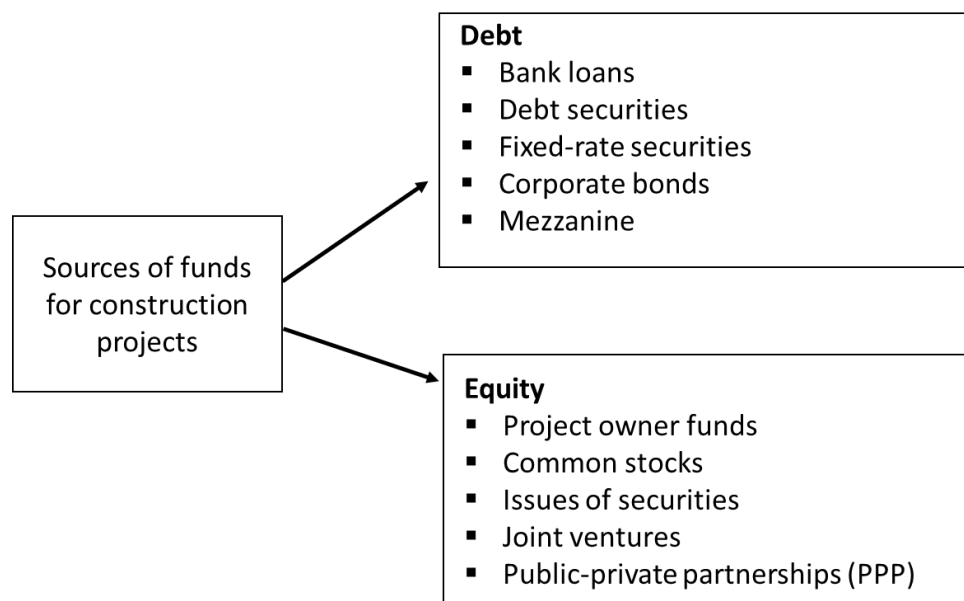
2.3 Real estate finance

The literature indicates that there are numerous sources of debt finance, including banks, insurance companies, pension funds, finance houses, and building societies (Brown & Matysiak, 2000; Brueggeman & Fisher, 2006). Banks are the main institutional providers of development finance (Baum & Crosby, 2014; Glickman, 2014). Property companies, private individuals, and private equity funds typically use borrowed funds to construct or purchase property (Baum & Crosby, 2014; Brueggeman & Fisher, 2006; Gau & Wang, 1990). Debt funds can be accessed during the construction phase, or when property income has been stabilized (Seabrooke & Hebe, 2004). Characteristically, lenders and investors providing debt for a construction project require the project owner or sponsor to have some equity investment in the project (Nevitt & Fabozzi, 1995). Loan structures usually used in property include construction loan, bridge loan, mezzanine loan, and mortgage loan (Glickman, 2014).

Equity finance is provided by the real estate developer or individual project owner to finance a construction project (Brown & Matysiak, 2000; Gau & Wang, 1990). In financing real estate, there are different sources of debt, and of equity (Baum & Crosby, 2014; Brueggeman & Fisher, 2006; Brown & Matysiak, 2000; Gau & Wang, 1990; Glickman, 2014). The company structure, type, and size of the borrower are some of the factors that determine the type of debt that can be accessed. Primary sources of equity include project sponsor or owner's funds, common stocks, joint venture, and issues of securities, among others. Figure 3 presents the primary sources of debt and equity.

Figure 3

Sources of funds for construction projects

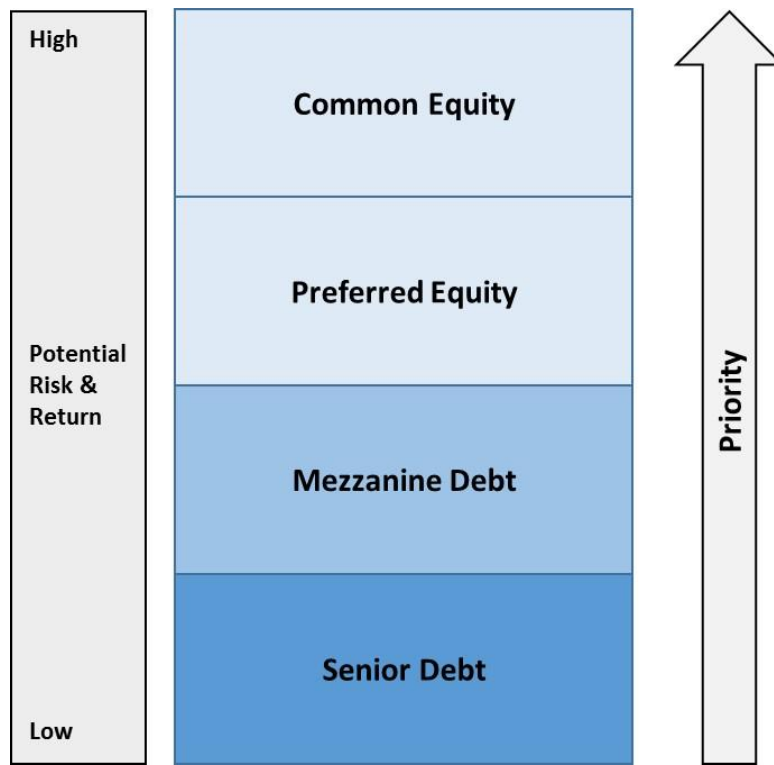


2.3.1 Capital structure: Loan and equity structures in the capital stack

The different types of capital used to fund a property are known jointly as its ‘capital structure’ (Brown & Matysiak, 2000; Glickman, 2014). The capital structure is typically comprised of different types of both debt and equity (Brueggeman & Fisher, 2006; Glickman, 2014). In developing the capital structure, project owners and financiers seek to stratify the different types of finance and their risk profiles, and returns for each profile. Each tranche or type of financing in the capital stack has its own terms, conditions, and requirements, against the asset’s cash flow and proceeds upon liquidation (Brown & Matysiak, 2000; Glickman, 2014). Capital is ordered by potential risk and return, prioritizing components with high seniority on value, claims and cash-flow, namely senior debts/first mortgages, followed by mezzanine debt, as illustrated in Figure 4. All debt components in the capital stack have the highest priority; they need to be paid in full, before the equity components (Brueggeman & Fisher, 2006; Glickman, 2014).

Figure 4

Capital stack illustration



2.3.2 Shortage of real estate finance

Shortage of finance for real estate construction is one of the problems facing the real estate industry (Baldwin, 2017; Goins, 2016; Parr, 2017). Obtaining bank financing in property development has been difficult, restrictive, and selective (Goins, 2016). Banks' increasing loan requirements, stricter lending terms, and higher interest rates particularly affected SMEs (Cohen, 2017). As SMEs have struggled to get finance through traditional financing sources, crowdfunding has emerged as an alternative funding to fill the funding gap (Gerber & Hui, 2013; Pekmezovic & Walker, 2016). Crowdfunding is serving the purpose of "connecting small businesses, which are marginalized from the traditional sources of funding, to the general public" (Sigar, 2012, p. 481). Although credit availability has generally improved since the

GFC, small businesses still face strict lending terms and limitations on bank finance, and this has led to the growth of crowdfunding (Anderson, 2016; Stemler, 2013).

In New Zealand, banks' lending constraints have been impacting the real estate development sector (Harris, 2016; Iles, 2017). The Reserve Bank of New Zealand introduced new regulations and loan-to-value ratio (LVR) restrictions that have caused banks to reduce their lending for commercial development financing and residential real estate (RBNZ, 2017). As some SME property developers have been struggling to obtain finance from banks, PC has been considered an alternative non-bank financing tool, or a tool to help improve borrowing ability.

A review of the real estate literature suggests that 'traditional' institutions are currently the providers of debt finance, especially for large real estate development projects. This review provides a background for examining the role of PC in financing real estate.

2.4 Property crowdfunding

To date, there are no prior studies on PC focused on New Zealand; the country has lagged behind other countries that have started to give scholarly attention to PC. Consequently, the literature on PC from other countries has been reviewed, as presented in the following sections. This literature helps to understand and interpret findings from this New Zealand-focused study. This present study offers new insights on PC, as it examines it in a hitherto unresearched context of New Zealand. Adding New Zealand to the literature advances knowledge in the field.

2.4.1 Definitions of property crowdfunding

Crowdfunding

Crowdfunding is funding a business enterprise or project by raising small sums of capital from many individuals usually through the Internet (Belleflamme et al., 2014; Mollick, 2014). Mitra (2012) states that “crowdfunding is the financing of a project by a group of individuals (collectively, “the crowd”) instead of professional “accredited” entities or individuals such as banks, venture capitalists or business angels” (p. 67). Through the use of technology, crowdfunding pools financial resources from the general public and provide capital to small business owners (Cohen, 2017).

Property crowdfunding

PC is a niche of the broader crowdfunding sector. A few scholars have advanced some definitions of PC. Schweizer and Zhou (2016) define PC as follows:

“Real estate crowdfunding is a form of financing in which real estate project developers make an open call on the internet (typically through specialized platforms) to sell a specified amount of equity- or bond-like shares in a company or project, with the aim of attracting a large group of (primarily accredited) investors”. (p. 7)

Maarbani (2015) offers the following description of PC:

“PC is the offering of traditional real estate assets or ventures, through differing types of financial products and distributed to investors through technology. PC allows a broader range of investors (the ‘crowd’) to make smaller investments in real estate assets and ventures in a more efficient manner. The aggregation of smaller amounts of capital from a broad group of investors results in the creation of a significantly larger pool of new capital, allowing the crowd to collectively buy properties, lend money to

homeowners and property developers, and potentially take equity stakes in new development projects as joint venture partners.” (p. 1)

Lowies et al. (2017) conceptualized PC as a process that involves setting up a special purpose vehicle (SPV) that enables a group of investors to combine their investments and acquire ownership of a real estate asset.

The FMA’s definition of PC

In New Zealand, the FMA, which regulates property crowdfunding, defines PC as follows:

“Property crowdfunding refers to crowdfunding services designed for bringing offers to the market from companies set up to raise funds to invest in identified properties.” (FMA, 2016)

Since the FMA states that PC involves the application of the concept of crowdfunding to property, it is important to present its definition of crowdfunding, as follows:

“Crowd funding is a type of financial market service covered by the Financial Markets Conduct Act 2013 (FMC Act). An equity-based crowd funding service licence holder acts as an intermediary between companies issuing shares and investors purchasing shares. The licence holder provides a facility where offers of shares can be made to the investing public.” (FMA, 2021b).

“Crowdfunding works by many people (the crowd) putting in small amounts of money to raise funds for a company or project. When you put money into an equity crowdfunding project, you’re buying shares. Typically, this will be in small or start-up businesses, meaning you become a part owner of the business. ... Equity crowdfunding is usually done on websites run by crowdfunding service providers. Each service will work in a different way, but typically you’ll be able to browse the website to see

potential companies to invest in. You'll be able to read information to help you work out which companies you'd like to support. Then the service will tell you how you can purchase shares. For example, the service may hold your money until the fundraising goal has been reached. Then they'll pass it on to the company who issues you with the shares you now own. Companies seeking money have to follow certain rules, such as being honest about the information they provide and how they will use the money. The most a company can seek to raise from equity crowdfunding is \$2 million in a 12 month period." (FMA, 2018)

The FMA's definition of PC will be used to analyse the definitions offered by research participants. The FMA's definition of crowdfunding mentions the importance of providing truthful information, and the crowdfunding cap of \$2 million/year, and these issues are discussed later in Chapter 5 and Chapter 6.

2.4.2 Current state of property crowdfunding

As stated in the previous section, currently, there is no literature on New Zealand property crowdfunding. However, a few studies have examined the state of PC in other countries. Schweizer and Zhou (2017) studied the USA market and found that, supported by clear and robust PC legislation, as well as high demand for investment opportunities in real estate by the general public, PC platforms in USA are very mature and advanced, and offer attractive investment returns to investors. Bogdanova (2018) reported that although the PC sector in Finland is still relatively young, the volumes of PC transactions on Finnish PC platforms are increasing exponentially. A study on Spain found that, although the PC sector in Spain is relatively small compared to the USA, there are ten PC platforms successfully operating in the country (Garcia-Teruel, 2019). Another study found that the PC sector in China, which began in 2014, is relatively young, and there are some legislation uncertainties impacting the

platforms (Tang, 2019). However, despite the unclear regulatory framework, PC is forecast to grow in China in the future (Tang, 2019). This present research focused on PC in New Zealand will build on the prior studies that have examined the state of PC in other countries.

2.4.3 Limitations and challenges of property crowdfunding platforms

Thus far, no scholarly attention has been given to limitations and challenges of PC platforms in New Zealand. However, a few studies have investigated limitations and challenges of PC platforms in other countries. For example, Garcia-Teruel (2019) investigated five of the ten PC platforms in Spain and found that there is a lack of information and transparency on the platforms. Some of the platforms do not provide detailed information about investment risks involved in the projects (Garcia-Teruel, 2019). Other platforms provide information about the risks, but this is not plainly visible on the platform as it is in very small print (Garcia-Teruel, 2019). Further, Garcia-Teruel (2019) also report that only three out of the five platforms have secondary markets; investments cannot be traded easily or freely on some of the platforms. Borrero-Dominguez et al. (2020) also examined PC in Spain and conclude that there is a need to address the current limitations of PC platforms, namely lack of liquidity and risk of platform insolvency, in order to enable PC to grow.

Schweizer and Zhou (2017) analysed PC platforms in USA and found that although the platforms are mature; provide very detailed information, and offer attractive returns to investors, there are some information asymmetries between investors and project owners. A study of PC platforms in Finland found that platforms suffer from low liquidity and lack of secondary markets, although some platforms have been working on developing their own secondary markets for their platforms (Bogdanova, 2018). Tang (2019) investigated PC

platforms in China and found that the platforms were relatively young, and they lacked diversification in the types of properties they offered as investment opportunities, as well as diversification in the location of the properties. These prior studies from other countries will help to understand limitations and challenges of PC platforms in New Zealand. The findings of this present research extend the studies reviewed above.

2.4.4 Compliance risks of crowdfunding platforms

Teichmann (2022) examined compliance risks of crowdfunding platforms and concluded that, although platforms have compliance obligations set by regulators in their respective jurisdictions, they can be used for money laundering, financing of terrorism, and fraud. Systems for monitoring transactions on platforms may fail to detect money laundering or terrorist financing transactions (Teichmann, 2022). Hidajat (2020) investigated crowdfunding and peer-to-peer lending platforms in Indonesia and found that they were used by criminals for laundering dirty money, in part due to weak regulations. Lin (2017) investigated equity crowdfunding platforms in China and found evidence of agency and information asymmetry problems, conflict of interest, and opportunism, leading to risks of fraudulent activities.

Mattarocci and Scimone (2022) recommended that platforms must diligently evaluate and verify all their users; and this includes collecting information such as addresses, criminal records, and creditworthiness, in order to avoid money laundering risks. Gupta et al. (2020) recommended that all platform users (i.e., project owners and investors) must first be registered on the platforms, and then the platforms can use a third-party provider to conduct Anti-Money Laundering (AML) verification of all the users. Once the AML requirements are met, the users can then be allowed to use the platform. Alhammad et al. (2021) analyzed crowdfunding

regulations in 26 countries and found that their regulations have provisions for preventing fraudulent activities such as money-laundering.

New Zealand PC platforms are required by the FMA to conduct anti-money laundering checks when people sign-up to use their platforms, as obligated by the New Zealand Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML/CFT Act). The New Zealand Government announced in 2023 that following a review of the AML/CFT Act, new changes and regulations have been made to the Act, and will progressively come into force between 2023 and 2025 (New Zealand Ministry of Justice, 2023).

2.4.5 Contextual factors impacting property crowdfunding

Thus far, there are no studies on contextual factors affecting PC in New Zealand, as stated previously. Several studies have examined how contextual factors in different countries have impacted PC. In the USA, crowdfunding legislation JOBS Act (2012) has enabled and supported the growth of PC because it eased the constricting laws for raising capital, and provided ordinary people with access to the investment asset class of real estate (Schweizer & Zhou, 2017). The JOBS Act and PC platforms in USA served to democratize access to real estate investments because previously, due to the securities regulations, and high minimum investments, the general public were excluded from participating in large property projects, with only institutional and high-net-worth investors having access to investing in real estate (Schweizer & Zhou, 2017). Access to real estate investing for the general public in USA was important since deposit interest rates from banks in USA are negative or low; thus, by democratizing real estate investing, the JOBS Act enabled PC to grow (Schweizer & Zhou, 2017). A study by Gigante and Cozzio (2021) on PC in Italy found that legislative clarity

gradually improved over time, and this enabled the PC sector to grow, and helped investors to have confidence in using PC platforms (Gigante & Cozzio, 2021). The Finnish Crowdfunding Act (CFA, 734/2016) was enacted in 2016, and provided a supportive regulatory framework for PC growth (Bogdanova, 2018).

Garcia-Teruel (2019) examined the legal framework for PC platforms in Spain and found that, in addition to the EU legislation for crowdfunding (European Regulation (EU) 2020/1503), Spain enacted its own legislation for crowdfunding, namely Promotion of Business Financing (Law 5/2015). Garcia-Teruel (2019) found that the process of getting registration and authorization from *Comision Nacional del Mercado de Valores* (CNMV), the governmental agency in charge of regulating securities in Spain, is complex and challenging. However, several Spanish PC operators have found a way to structure their companies and operate their platforms which enabled them to legally avoid Act 5/2015 stringent legislation. As a result, only three PC platforms have CNMV authorisation, and seven platforms do not follow Act 5/2015 legislation (Garcia-Teruel, 2019). By circumventing the Act 5/2015 legislation, PC platforms in Spain have been able to grow (Garcia-Teruel, 2019). Borrero-Dominguez et al. (2020) also examined PC in Spain and recommended that there is a need to improve the PC legislation in Spain, to enable the sector to grow further.

Using data from the UK, Gibilaro and Mattarocci (2018) found that contextual factors in the UK, specifically restrictions in the traditional mortgage market, and stringent lending policies by traditional lenders such as banks, have led to the growth of peer-to-peer lending and crowdfunding of mortgages, which have been taking an increasing market share.

Some studies have explored behavioural/cultural and demographic factors impacting PC in other countries. For example, Lowies et al. (2017) examined how PC is perceived in Australia and found that investors have a conservative and cautious attitude towards PC, and this has impacted the development of PC in Australia. Lowies et al. (2017) also found that demographic factors impact behaviours towards PC in Australia; younger investors tend to invest more via PC platforms than older investors. A study of PC platforms in Finland found that developers are hesitant to use PC platforms because of the publicity of crowdfunding, which can impact the developer if the crowdfunded project fails (Bogdanova, 2018). Schweizer and Zhou (2017) found that behavioural factors impact investments on seven leading PC platforms in USA; there is a “home bias” pattern of investing whereby crowdfunding transactions tend to occur between developers and investors in the same geographic areas. The findings of this present research extend prior studies that have examined contextual and behavioural factors that have shaped the development of PC in other countries, as presented above.

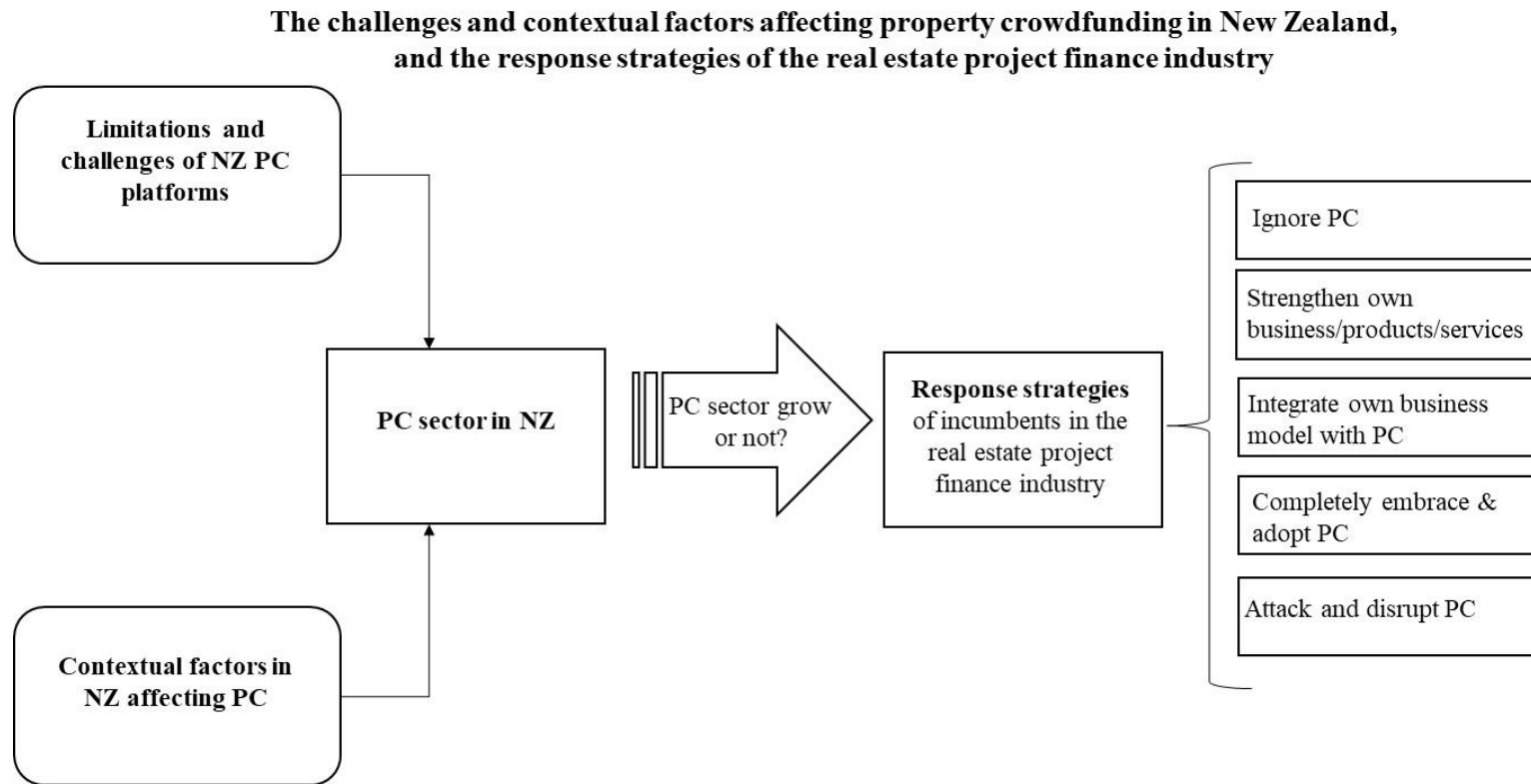
2.5 Initial conceptual framework

This literature review chapter showed that although a few scholars have investigated PC in more mature PC markets such as USA and UK, there is a gap in research focused on New Zealand because the local PC sector has not yet attracted scholars’ attention. Figure 5 presents a conceptual framework on challenges and contextual factors affecting PC in New Zealand, and the response strategies of the real estate project finance industry. This framework was developed based on literature reviewed in this chapter. As expected of conceptual frameworks, this study’s framework specifies the phenomenon being investigated (Crossan et al., 1999); shows the core elements of the framework (Bacharach, 1989), and illustrates the relationship

between the elements of the framework (Sutton & Staw, 1995). This conceptual framework guided the data collection phase of this study.

Figure 5

A conceptual framework of property crowdfunding in New Zealand



2.6 Chapter conclusion

To facilitate understanding the scholarly context of this study, this chapter reviewed the literature in areas pertinent to this research topic, namely DIT literature, legitimacy and reputation building of new firms, real estate finance literature, and PC literature. PC, a new and potentially disruptive innovation that entered the real estate project finance industry, necessitates examining it using DIT. Legitimacy and reputation building literature also informed how PC platforms are perceived as young entrepreneurial firms in New Zealand. The literature on real estate finance provided a background context of PC in financing property projects. The literature on challenges and limitations of PC in other countries helped to analyse PC platforms in New Zealand.

The chapter also presented a conceptual framework for investigating the challenges and contextual factors affecting PC in New Zealand, and the response strategies of the industry. The conceptual framework and the key themes in the framework, provided a foundation for this study, and guided the data collection stage of this study.

Chapter 3 Crowdfunding sector in New Zealand

This chapter presents an overview of the equity crowdfunding sector in New Zealand, the legal framework for PC, and profiles of platforms in the sector. The information presented in this chapter will be drawn upon in later chapters to analyze PC in New Zealand. The main sections of this chapter are as follows:

- The New Zealand crowdfunding legal framework
- Crowdfunding platforms in New Zealand
- Fintech private companies involved in crowdfunding in New Zealand

3.1 New Zealand crowdfunding legal framework

In New Zealand, equity crowdfunding, which includes PC, is a financial service regulated by the Financial Markets Conduct Act 2013 (FMC Act 2013). Crowdfunding legislation within the FMC Act was passed in 2013, became effective in April 2014, and the first equity crowdfunding licences in New Zealand were issued mid-2014. The first crowdfunding licences for platforms exclusively focused on PC were issued in November/December 2016. Equity crowdfunding is a process whereby companies raise finance from people and issue shares (FMA, 2021a). A crowdfunding service is whereby a platform plays the role of a “middleman” between companies seeking to raise funding, and investors (i.e., the general public) seeking investment opportunities (FMA, 2021a). The FMA’s more elaborate definitions of PC and crowdfunding were presented in Section 2.4.1.

Crowdfunding service providers in New Zealand require a licence from the FMA to operate. Licensed crowdfunding service providers must create a website from which the service is provided. Holding the licence enables crowdfunding service providers to help companies raise capital from the public with minimal disclosures (FMA, 2021b). According to the FMA regulations, companies or project sponsors can raise a maximum of \$2 million per year (FMA, 2021a). To get an FMA licence, crowdfunding service providers must demonstrate that they have transparent practices and systems set up on the platform to ensure they comply with the FMA's requirements (FMA, 2021b).

3.2 FMA-licenced crowdfunding platforms

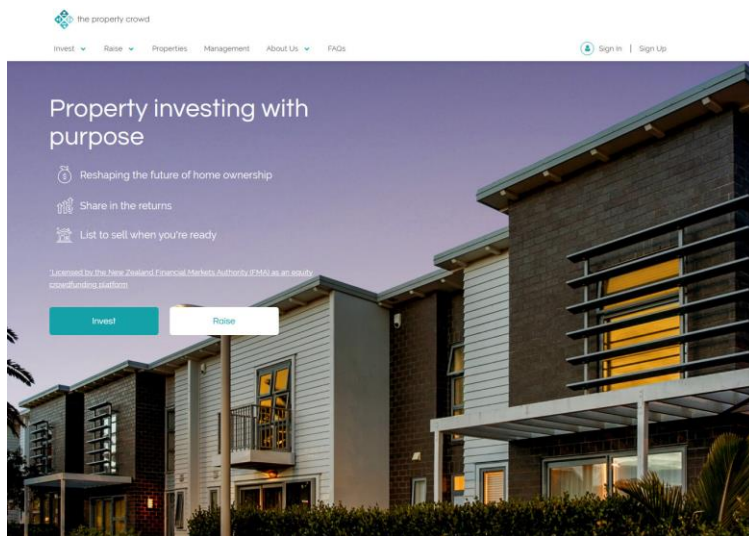
There are currently six FMA-licensed crowdfunding service providers in New Zealand (FMA 2021b). These are: The Property Crowd Ltd, Collinson Crowdfunding Ltd, Equitise Ltd, Crowdsphere Ltd, PledgeMe Ltd, and Snowball Effect Ltd. Two more platforms held FMA licences, but, mainly due to lack of activity on the platforms, have since suspended or cancelled their licences, namely Fulqrum and Crowd88 Ltd. Two more PC platforms operate as private fintech companies (i.e., not as platforms, without FMA licence), namely The Ownery and Opolo. Overviews of these ten platforms/companies are presented below.

The Property Crowd

The Property Crowd (TPC)'s FMA equity crowdfunding services licence was granted in October 2018 (FMA, 2021b). TPC is based in Auckland, and the platform is exclusively focused on PC. TPC seeks to help developers raise capital and give ordinary people the opportunity to invest in property. In 2019, the FMA approved TPC's secondary market licence. A snapshot of TPC platform is presented in Figure 6.

Figure 6

The Property Crowd website



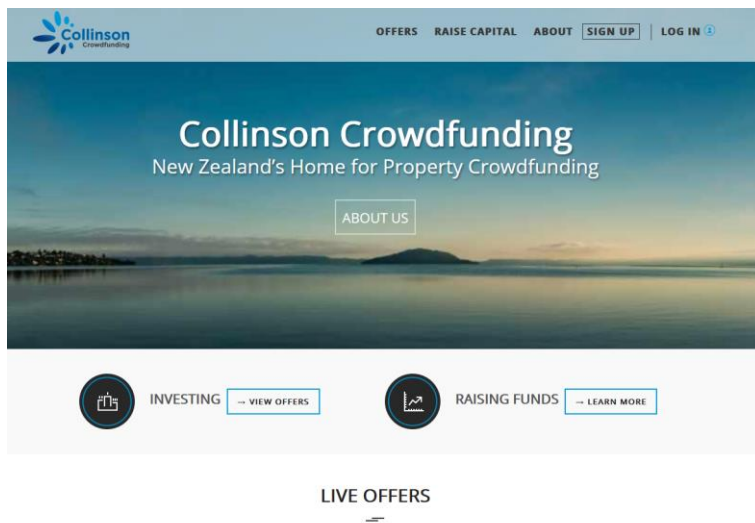
Source: <https://thepropertycrowd.co.nz/home>

Collinson Crowdfunding Ltd

Collinson Crowdfunding's FMA crowdfunding services licence was granted in November 2016 (FMA, 2021b). Although the company is primarily focused on crowdfunding for property, it does handle crowdfunding projects from other industries. Collinson Crowdfunding is based in Auckland. A snapshot of Collinson crowdfunding platform is presented in Figure 7.

Figure 7

Collinson Crowdfunding website

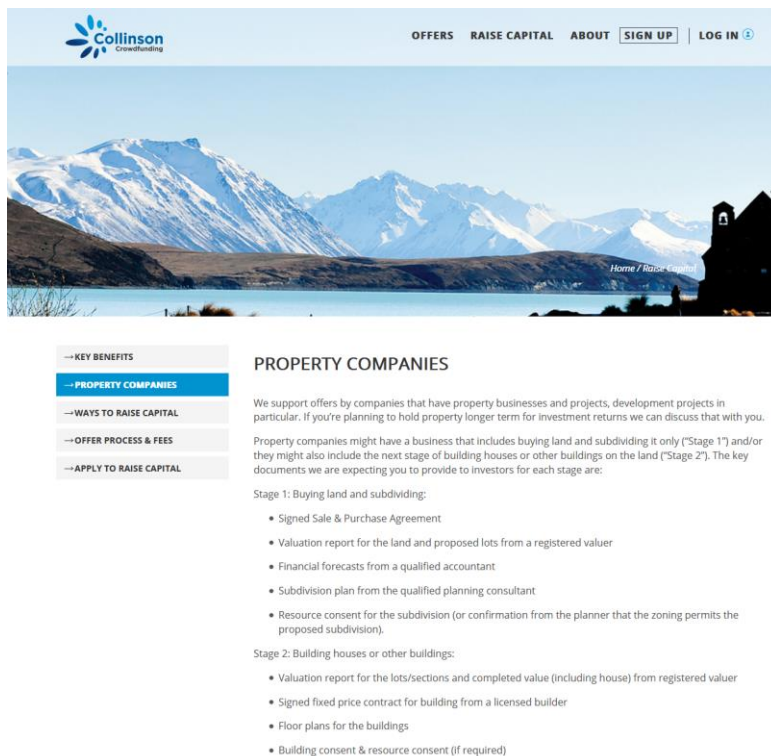


Source: <https://www.ccfl.co.nz/>

A snapshot of Collinson Crowdfunding's PC page for property developers is presented in Figure 8.

Figure 8

Collinson Crowdfunding website: Property crowdfunding section



Source: <https://www.ccfl.co.nz/raising-capital/property-companies>

Collinson crowdfunding is focused on crowdfunding for development projects. The platform's website states:

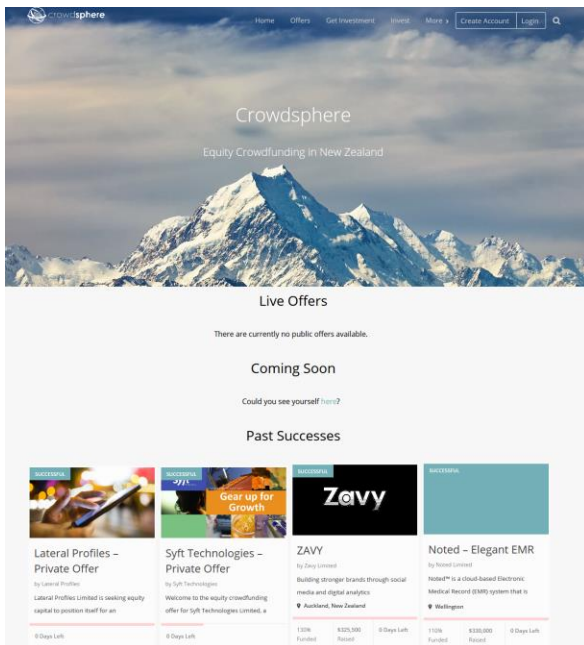
“We support offers by companies that have property businesses and projects, development projects in particular. If you're planning to hold property longer term for investment returns we can discuss that with you. Property companies might have a business that includes buying land and subdividing it only (“Stage 1”) and/or they might also include the next stage of building houses or other buildings on the land (“Stage 2”).” (Collinson Crowdfunding, 2022).

Crowdsphere Ltd

Crowdsphere’s FMA crowdfunding services licence was granted in November 2014 (FMA, 2021b). Crowdsphere has offices in Auckland and Wellington. The company is focused on equity crowdfunding for companies across all industries, including property. A snapshot of Crowdsphere’s platform is presented in Figure 9.

Figure 9

Crowdsphere Crowdfunding website



Source: <https://crowdsphere.co.nz/>

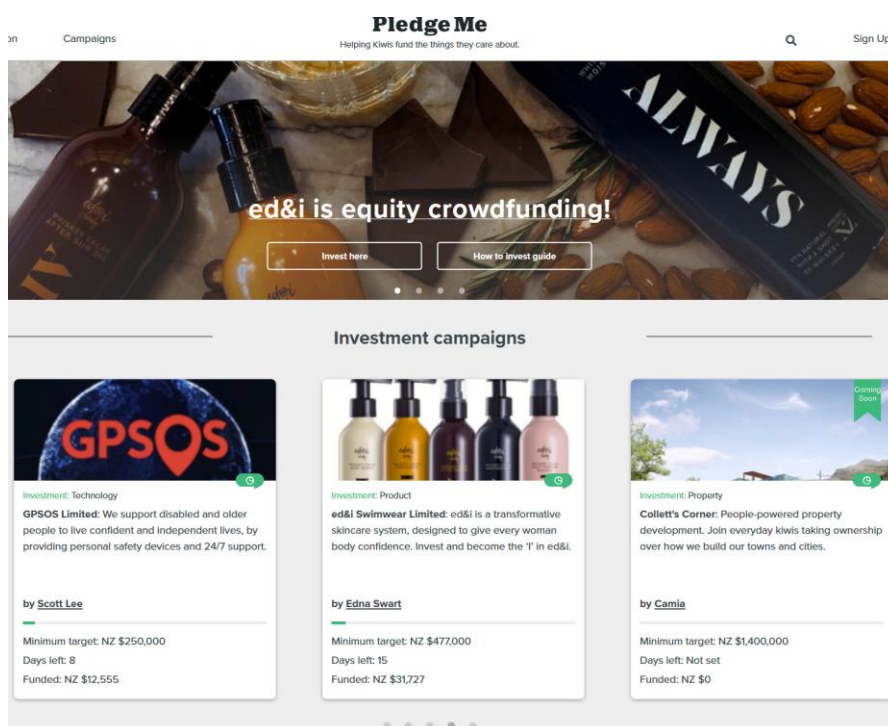
PledgeMe Ltd

PledgeMe’s FMA crowdfunding services licence was granted in July 2014 (FMA, 2021b). Based in Wellington, the company provides project and equity crowdfunding services as well as peer-to-peer lending services for companies from all industries, including property. The company holds two FMA licences, namely a crowdfunding licence and a peer-to-peer (P2P)

lending licence. Initially established as a rewards-based platform in 2011, the company later became one of the first platforms to receive its equity crowdfunding license from the FMA in 2014, and subsequently gained its P2P licence in June 2016. PledgeMe, which is now expanding into Australia, is considered the most successful crowdfunding platform in New Zealand (NZ Herald, 2017). On PledgeMe platform, companies can raise debt and/or equity capital from the crowd (PledgeMe, 2022a). A snapshot of PledgeMe platform is presented in Figure 10.

Figure 10

PledgeMe website



Source: <https://www.pledgeme.co.nz/>

In 2019, Ohu, a community-focused developer ran a successful PC campaign that raised \$355,000 for Collette’s Corner, a commercial and residential development project in Lyttleton, Christchurch which was designed in collaboration with the community. Ohu subsequently

successfully raised \$1.6 million in 2020 (PledgeMe, 2022a). A snapshot of Collette’s Corner crowdfunding campaign on PledgeMe is presented in Figure 11 below.

Figure 11

PledgeMe Collette’s Corner PC campaign

The screenshot shows the PledgeMe website interface for the 'Collett's Corner' campaign. At the top, the PledgeMe logo and tagline 'Helping Kiwis fund the things they care about.' are visible. The campaign title 'Collett's Corner' is prominently displayed, along with the creator 'By Camia'. A 3D architectural rendering of a multi-story building is shown on the left. To the right, campaign statistics are listed: 'NZ \$503,800 pledged' and '366 people pledged'. The campaign status is 'Closed', and the 'NZ \$300,000 minimum target' has been reached. A progress bar shows the current amount pledged relative to the target. A 'Make a Pledge' button is present, though the campaign is closed. Below the rendering, there are social media icons and a 'Community' link. At the bottom of the campaign page, there are buttons for 'About', 'Updates', 'Details', 'Questions', 'Followers', and 'Pledgers'. A yellow button with the text 'Be Well. Invest Well.' is also visible. A green notification box states: 'This campaign was successful and got its funding on 21/03/2019 at 7:00 PM.' A blue notification box states: 'This campaign has closed, but this company may choose to do more equity raises on PledgeMe in the future. If you're interested in investing in Collett's Corner, you can sign up to be notified when a new equity campaign from this company is published.'

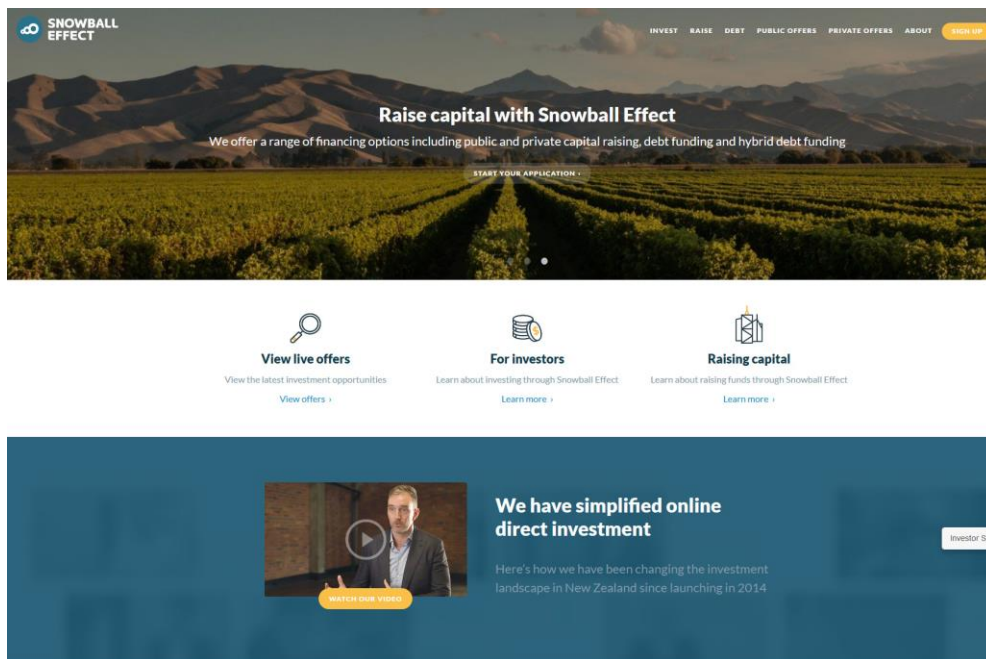
Source: <https://www.pledgeme.co.nz/investments/347-collett-s-corner>

Snowball Effect Ltd

Snowball Effect’s FMA crowdfunding services licence was granted in July 2014 (FMA, 2021b). Snowball Effect is based in Auckland, and is focused on equity crowdfunding for companies from all industries. Investment opportunities on the platform consist of public offers, private offers, wholesale investor offers, as well as customized capital raising. A snapshot of the platform is presented in Figure 12.

Figure 12

Snowball Effect's website



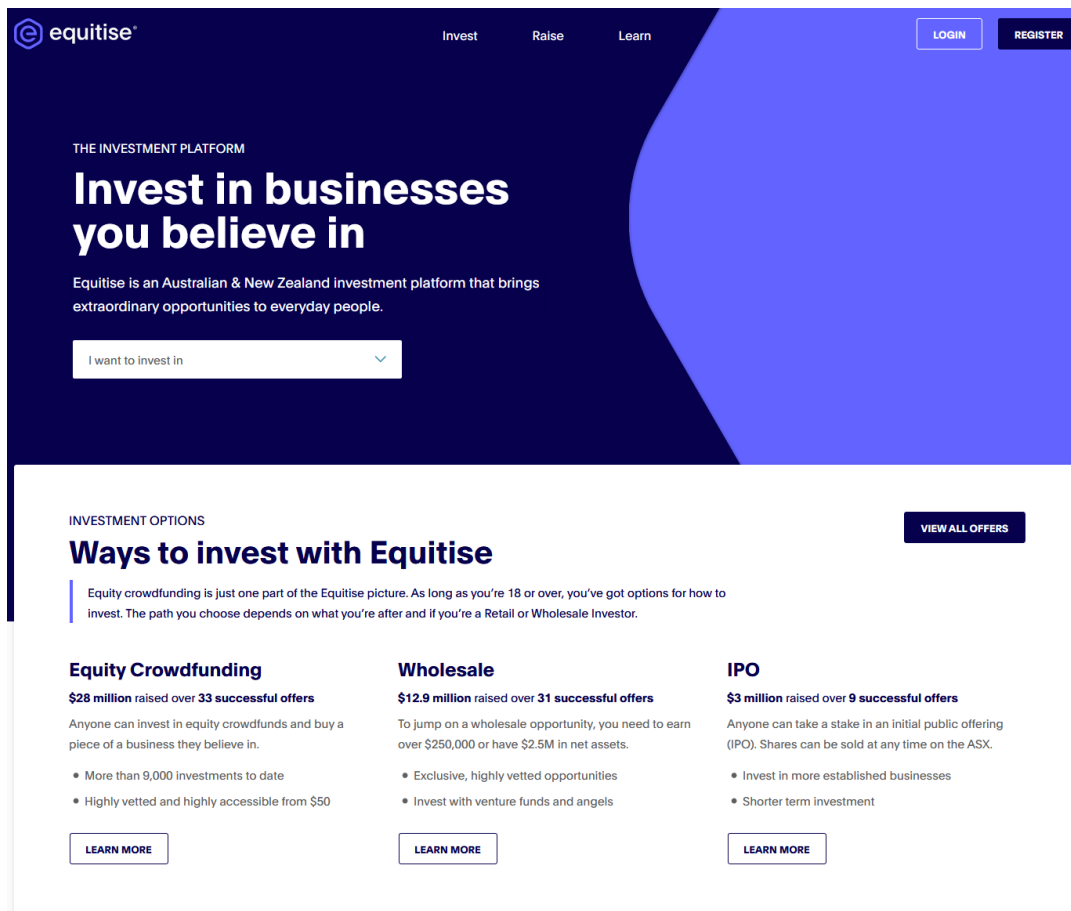
Source: <https://www.snowballeffect.co.nz/>

Equitise Ltd

Equitise's FMA crowdfunding services licence was granted in December 2014 (FMA, 2021b). As a trans-Tasman platform, Equitise operates in New Zealand and Australia; it holds an FMA crowdfunding licence and an ASIC (Australian Securities and Investments Commission) crowdfunding licence. The company offers equity crowdfunding services to companies from all sectors. A snapshot of Equitise platform is presented in Figure 13.

Figure 13

Equitise website



Source: <https://equitise.com/>

Previous FMA crowdfunding licence holders

Two platforms who once held FMA crowdfunding licences have since suspended their operations, as follows.

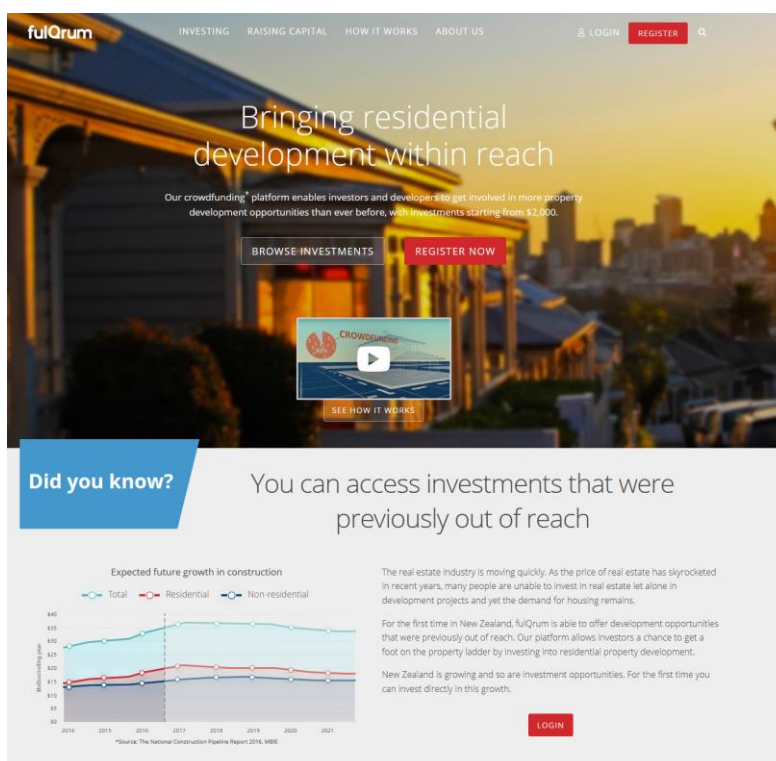
Fulcrum

Fulcrum was one of first property development crowdfunding platforms to be granted a licence by the FMA in December 2016, but subsequently lost its licence due to lack of activity. The

company was based in Auckland, and was exclusively focused on PC, targeting residential development projects. Fulqrum sought to enable residential property developers to raise funding from the general public, with minimum investments starting from \$2,000. The platform sought to give small to medium-sized developers access to alternative sources of capital, and also give the general public access to investment opportunities in property development projects. Fulqrum was targeting crowdfunding for NZ\$2-\$10 million residential developments projects. A snapshot of Fulqrum platform is presented in Figure 14.

Figure 14

Fulqrum website



Source: <https://web.archive.org/web/20171106231732/https://www.fulqrum.co.nz/>

Crowd88 Ltd

Crowd88's FMA crowdfunding services licence was granted in December 2014 (FMA, 2021b). The platform provided crowdfunding services for companies from all industries. The company held both FMA-issued and ASIC-issued crowdfunding licence, and operated in New Zealand and Australia. However, in 2019/2020, Crowd88 suspended or cancelled its FMA licence, partly due to lack of activity, and now operates in Australia only. A snapshot of Crowd88 platform is presented in Figure 15.

Figure 15

Crowd88 website

The screenshot displays the Crowd88 website interface. At the top, the Crowd88 logo is followed by navigation links: RAISE CAPITAL, INVEST, CORNERSTONE CLUB, ABOUT US, SIGN UP, and LOG IN. The main banner features the text "DIVERSIFY YOUR INVESTMENTS" and "Sign up to Crowd88 today!" with an orange "INVEST" button. Below the banner, the "ENOVA ENERGY" campaign is featured, labeled as a "FEATURED COMPANY".

An established Australian energy retailer with a licence to retail electricity across the National Electricity Market, Enova Energy is presently owned by 1,100 community shareholders who are concerned about climate change and are committed to building a decentralised, distributed clean energy future that does not leave anyone behind. To fund growth from our Northern Rivers base into Sydney, Newcastle, Wollongong, Southeast Queensland and diverse regional communities, Enova has launched an equity crowdfunding campaign on Crowd88.

COMPLETED

Power to the People ...

ENOVA
IN YOUR ENERGY

169%
minimum target
AUD 600,000

AUD 3,000,000

TONY PFEIFFER
Managing Director of Enova Energy

- Day Left: ENDED
- Raised: AUD 1,019,440
- Industry: RENEWABLE ENERGY
- Max. Equity Offered: 37.50 %

SEE MORE

Source: <https://www.crowd88.com/en/>

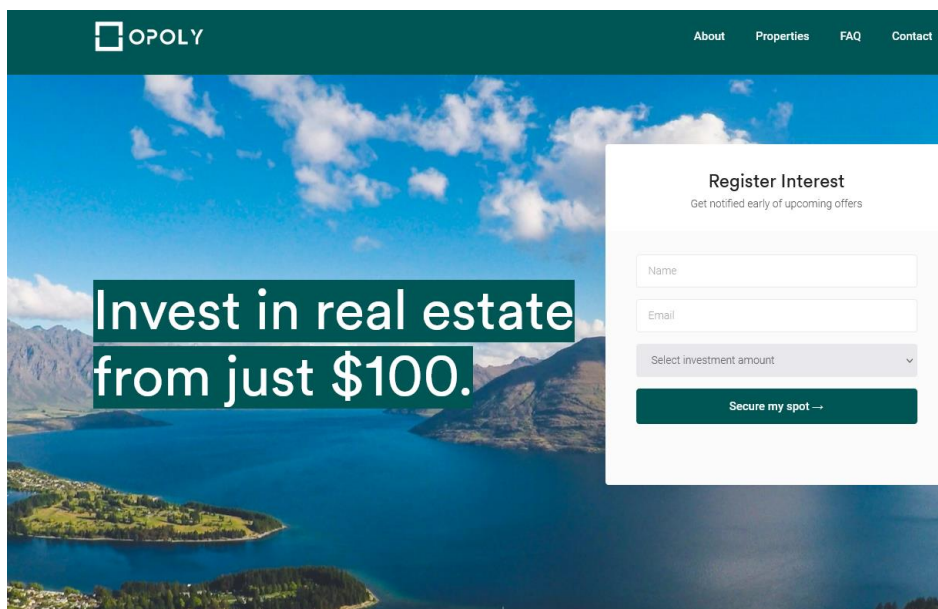
3.3 Fintech private companies

Opoly

Opoly is the most recent platform to enter the PC market, offering its first property for crowdfunding in 2021 (Scoop, 2021). Crowdfunding for this first property, a residential property in Ponsonby aiming to raise \$1.1 million, was unsuccessful as only \$42,100 was raised. Next, Opoly offered a crowdfunding opportunity for a retail property in Orewa, seeking to raise approximately \$948,000, but this was also unsuccessful as only \$53,500 was raised (BusinessDesk, 2021). The platform subsequently successfully crowdfunded a land asset in Otago for \$105,000 (BusinessDesk, 2021). Snapshots of Opoly website, and the page listing its PC opportunities, are presented in Figure 16 and Figure 17 below.

Figure 16

Opoly website




Source: <https://opoly.co.nz/>

Figure 17

Opoly PC opportunities

Properties

OFFER OH05



Lot 30 Ashburn Street
Oamaru, Otago

There are not too many sections around in Oamaru and in a good northend location just a short walk from schools and northend amenities. On offer is this fantastic opportunity to secure an elevated 1018m2 section that with a bit of imagination could see you living in a home that offers views over Oamaru town and coast.


\$107,500

154 Investors
3 days remaining

VIEW

88,700 / \$107,500 FUNDED

OFFER OH04



2 Tawera Place
Te Anau, Southland

This 821sqm, corner site is one of the few remaining sections in stage 2 of the Kapler Heights Subdivision. With all four services to the boundary (Water, Sewerage, Phone, Power) and title issued, this section is ready to be built on. Located close to a large reserve with paths leading into town.

\$250,000

315 Investors
Offer has expired

CLOSED

200,000 / \$250,000 FUNDED

The Ownery

The Ownery, established in 2016, is a PC platform that operates as a private fintech company, and is based in Auckland. The Ownery offers what it calls “HouseShares”, an investment scheme that offers prospective property owners a ‘share’ of a house for as little as \$500. The Ownery offers shares in companies which own Auckland houses. The company promotes its offer as a way to help New Zealanders get on the property ladder. The Ownery does not have an FMA crowdfunding licence. A snapshot of the company’s website is presented in Figure 18 below.

Figure 18

The Ownery website

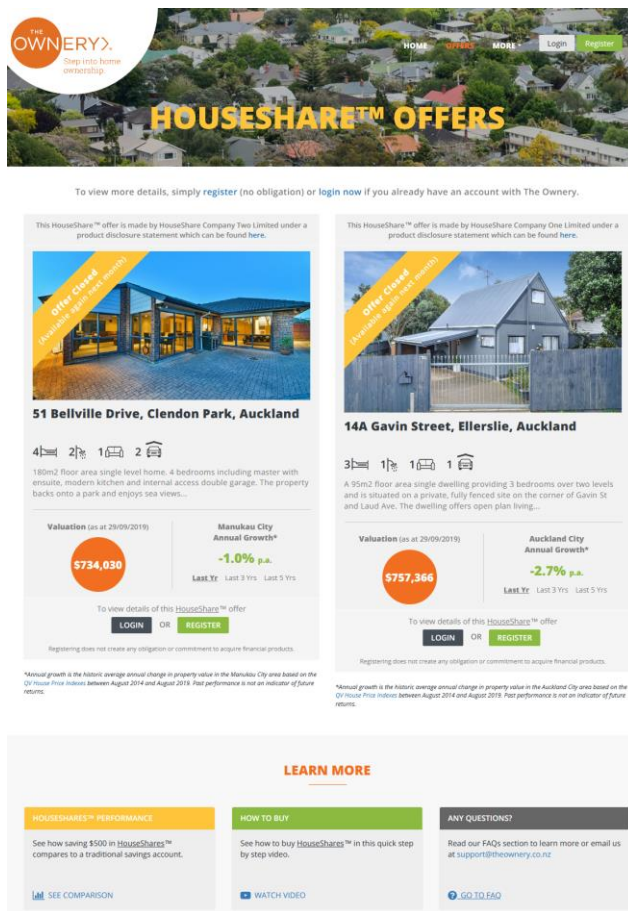


Source: <https://www.theownery.co.nz/>

During the writing of this thesis, the Ownery had two properties offered for investment opportunities on its website. However, the website stated that these offers were 'closed'. A snapshot of the properties offers page is presented in Figure 19 below.

Figure 19

The Ownery website: Offers page



Source: <https://www.theownery.co.nz/offers>

This chapter presented a summary of PC's legal framework, and provided profiles of platforms operating in New Zealand. Although PC is currently nascent, it may impact the property industry in general, and the real estate project finance sector in particular. Therefore, a wide range of stakeholders in the industry, such as banks; non-bank property finance lenders; property developers, investors, and syndicates; and property experts and other related professionals, were interviewed in this study, as presented in the following Chapter 4.

The overviews of PC platforms presented above suggests that PC is struggling to gain acceptance or popularity in New Zealand. Although \$2m is a low cap that restricts projects, platforms have not yet come close to raising this amount. Later chapters in this thesis will analyse why PC platforms have been struggling to gain acceptance in New Zealand. Given that banks are very risk averse in financing property projects, and the high returns of property sales in the past seven to eight years, it was anticipated that people would be interested in acquiring shares in property developments through PC platforms. A combination of various factors have impeded the uptake of PC in New Zealand, as explored in this study. As discussed later in Chapter 6, the limitations and challenges currently hindering the growth of PC are solvable for New Zealand. Notwithstanding the challenges PC is currently facing, PC in New Zealand has a positive future outlook, as discussed in Section 6.8.

Chapter 4 Research design and methodology

4.1 Chapter introduction

This chapter presents the research approach used in this study. The study's paradigmatic assumptions, role of the researcher and how potential bias was minimized, research methodology, rationale for the methodological approach used, and the methodological fit of the study, are described. The chapter also presents the data collection methods used, and data analysis approach.

4.2 Paradigmatic assumptions

A research design starts by considering the ontological position (nature of reality) and the epistemological position (theory of knowledge) adopted in a study (Creswell & Creswell, 2017). The aim of this study is to inductively develop a conceptual framework, rather than deductively test theory, following the approach recommended by Creswell (2007). Currently, there are no theories or conceptual frameworks on PC in New Zealand that could be tested, and this motivated the inductive approach. According to Bryman and Bell (2011), an inductive approach facilitates contributing towards theory based on data collected from fieldwork. Therefore, an inductive, qualitative approach was used to investigate the unresearched topic of PC in New Zealand.

Ontological assumptions

This study's ontological view is 'constructionism' – 'reality' of phenomena is created by individuals who are involved in certain social situations whereby they create their own perspectives and meanings of the phenomena they encounter (Denzin & Lincoln, 2011). People develop different, subjective meanings, and make different interpretations of the world they live in and the phenomena they encounter (Creswell, 2007). The constructionist approach emphasises research participants' narratives of their experiences; opinions, interpretations, and perspectives about a phenomenon and its context (Creswell & Creswell, 2017). This study drew upon the knowledge, experiences, and perspectives of diverse stakeholders to develop a conceptual framework of PC in New Zealand.

Epistemological assumptions

This research's epistemological position is 'interpretivism' (Bryman & Bell, 2011). Epistemology refers to what is or should be knowledge; what type of knowledge can be created through research, and how to ensure that this knowledge is valid (Crotty, 1998). Interpretivism postulates that knowledge is a social construct obtained through understanding and interpreting human actions and perspectives (Creswell & Creswell, 2017). Knowledge about a certain phenomenon must be drawn from the understanding, viewpoints, experiences, and interpretations of the people who are deeply involved in that phenomenon and are thus able to offer in-depth insights about the phenomenon under study (Deetz, 2009; Flick, 2008; Morgan & Smircich, 1980). To understand PC in New Zealand, this study drew from the knowledge, experience and viewpoints of different stakeholders in the property industry in general, and in the real estate project finance industry in particular, who have been involved with, or have

observed the emergence of PC in New Zealand. The ontological and epistemological philosophies adopted in this research influence the methodological choices for this research, as presented in Section 4.4.

4.3 Role of the researcher and reflexivity

The interpretive approach used in this study recognizes the role and impact of the researcher on the study (Bryman & Bell, 2011). The researcher's worldview or perspective, experience, and inherent biases can impact the research, and this necessitates reflexivity throughout the research process (Creswell & Creswell, 2017). Accordingly, throughout the research program, I reflexively noted my thoughts in order to shed light on any inherent biases I hold, and avoid or minimize such biases. According to Chenail (2011), researcher bias can occur if "the investigator has a strong affinity for the participants being studied or is a member of the population itself" (p. 255). I had no affinity with the participants, and, in collecting and interpreting the data, efforts were made to be as objective as possible.

During the interviews, although some interviewees, particularly PC founders, showed disappointment with the struggling platforms, I focused on and continued asking the interview questions. Researchers must avoid confirmation bias, which is "an inclination to retain, or a disinclination to abandon, a favoured explanation" (McSweeney, 2021, p. 1064). I avoided confirmation bias by being rigorous, flexible, and reflexive throughout the research.

When using secondary data analysis, researchers must avoid bias by maintaining analytical flexibility (Bryman & Bell, 2011). To complement primary data collected from interviews, this study used secondary data as explained in section 4.5.2. To avoid bias in analyzing secondary data, I maintained analytical flexibility throughout the process; I analyzed the data in a transparent manner, with an open mind.

4.4 Methodology: Qualitative methods

4.4.1 Rationale: Why qualitative methods?

Qualitative methods were used in this study for numerous reasons, as follows.

The research question. This study's research question is: *What challenges and contextual factors are affecting property crowdfunding in New Zealand, and how may the real estate project finance industry strategically respond to property crowdfunding?* In accordance with Pratt (2009), this research question is inquisitive and exploratory in nature, it aims to facilitate an in-depth investigation of PC in New Zealand, to deepen our knowledge about it. Qualitative methods facilitate collecting rich, detailed data; and generating comprehensive descriptions of a phenomenon, to advance understanding of it (Buchanan & Bryman, 2007). 'What' and 'how' type of research questions also facilitate detailed analysis of a topic or phenomenon which is in a transitional process (Richards & Morse, 2012). PC is an emerging and evolving phenomenon, and is not particularly well understood in New Zealand. Thus, qualitative methods, and exploratory, open-ended questions are the most suitable for this study; they

facilitated carrying out a comprehensive scrutiny of PC in New Zealand, to offer a deeper understanding of it.

Lack of data in a nascent topic and industry. Qualitative methods were used in this research because PC is still nascent and small in New Zealand, and this created the challenge of lack of time-series or cross-sectional data. According to Griffiths (2009), a lack of data justifies using qualitative methods, and influences the type of analysis that can be conducted in a study. The nascent and small state of PC, and the resultant lack of data, necessitated the adoption of qualitative methods. A qualitative approach, which is exploratory and descriptive, is essential to collect detailed information about PC in order to better understand it, and also to provide a foundation for further research in the future.

Inductive data analysis. Qualitative research facilitates inductively developing new theory and conceptual frameworks that are grounded in collected data, in order to advance knowledge (Patton, 2002; Richards & Morse, 2012). Qualitative researchers study phenomena through extracting meaning from their data; making sense of or interpreting data with respect to the meanings research participants bring to the phenomena (Denzin & Lincoln, 2000). The literature review (Chapter 2) has shown that research on PC in New Zealand is lacking. Qualitative methods were chosen for this study to advance the limited knowledge and literature about PC by ‘inductively’ developing a conceptual framework of PC in New Zealand.

A unique conceptual framework. I developed a new conceptual framework on challenges and contextual factors affecting PC in New Zealand, and the response strategies of the real estate project finance industry. This framework has not been seen in prior studies on PC. As explained in Chapter 2, the New Zealand PC sector has not yet received scholars’ attention.

Although a few scholars have investigated PC in more mature PC markets such as USA and Europe, none of these studies have advanced a comprehensive conceptual framework similar to the one developed in this present study. Therefore, this study's new conceptual framework is new to New Zealand PC, and to the global PC field.

The conceptual framework brings together, and links different concepts that facilitate in-depth examination and understanding of PC in New Zealand. The framework helped me to achieve my research objective of studying a nascent market ignored in the literature by (a) formulating the initial conceptual framework, drawing from the extant literature, and (b) providing key themes for conducting in-depth interviews with research participants and collecting data. The literature review identified knowledge gaps, and provided a foundational knowledge base which facilitated building a holistic initial conceptual framework on PC in New Zealand. Findings from interviews with stakeholders were then used to enhance and update the initial conceptual framework and develop a revised conceptual framework of PC in New Zealand. The modified conceptual framework offers an accurate and comprehensive reflection of the expertise and viewpoints of various stakeholders of PC in New Zealand. The conceptual framework advanced in this study can help future scholars conduct research and expand knowledge in PC in general, and the New Zealand PC sector in particular.

Respecting research participants' perceptions. Qualitative research facilitates investigating and understanding a phenomenon through research participants' experiences and views – the individuals who are involved in that phenomenon (Creswell, 2007). Qualitative methods are necessary when the goal is to investigate reactions to a phenomenon and to determine participants' experience and perspectives of it (Richards & Morse, 2012). Qualitative research is uniquely suited to giving 'voice' to the research participants (Bluhm et al., 2011). Qualitative

methods are ideal for studying PC in New Zealand, drawing on the knowledge, experience, and views of different stakeholders in the industry who have engaged with, or have observed the emergence of PC in New Zealand, and its performance thus far.

Contextualising, understanding the context. Qualitative methods facilitate studying phenomena or people within their contexts or natural settings (Creswell, 2007). Analysis of a phenomenon is inseparable from the national, social, historical, or organizational context within which it occurs because the context can help to explain and understand the phenomenon (Denzin & Lincoln, 2011). According to Bryman and Bell (2011), qualitative research enables researchers to understand the context of the phenomenon they are studying, including relevant local behaviours and beliefs. Qualitative methods are appropriate for this study because they facilitate exploring in detail contextual factors that have influenced PC in New Zealand.

A holistic investigation and analysis. Qualitative methods allow for a more holistic analysis and description of a phenomenon; identifying multifaceted factors and viewpoints relating to it, thus providing a ‘big picture’ of the phenomenon (Marshall & Rossman, 2006). Qualitative methods are considered most suitable for this study which seeks to gather diverse views from different stakeholders so as to provide a comprehensive understanding of PC in New Zealand.

4.4.2 Methodological fit

Methodological fit – alignment and consistency between different components of a research study – is crucial for robustness of research, and its contributions (Edmondson & McManus, 2007; Richards & Morse, 2012). To create an integrated research design, there must be congruency between key components of a research study (Denzin & Lincoln, 2011). Choosing

the suitable research approach must be based on the state of theory in the field, and the field's level of maturity or state of development (Edmondson & McManus, 2007). This determines how the results and contributions of the study will be evaluated against other literature and theoretical conversations in the field, thereby influencing the study's impact in the field (Huff, 2009). There are three types of theory: nascent theory which focuses on emerging and novel research topics with limited literature; mature theory which is well-developed with extensive, well-established literature; and intermediate theory which deals with new concepts that are concurrently being developed and tested (Edmondson & McManus, 2007). Accordingly, this study ensured methodological fit amongst the different components of the research, namely the state of prior literature, methodology, data collection methods, and type of data collected.

PC is a relatively new research area, and the state of prior literature is nascent, as stated in Chapter 2. The literature review also identified a gap in PC research in New Zealand. PC remains an under-investigated phenomenon in the New Zealand context, although scholars have begun researching PC in other countries. Therefore, this study is situated in the 'nascent theory' category. Having situated this study in the nascent theory category, Table 4 outlines the numerous components and selected approaches for this research. The table shows that there is alignment across the different components of this research, namely the paradigmatic assumptions, the status of previous literature, research question, research method, data collection methods, data analysis techniques, as well as expected contribution to the literature. Since this study examines an unresearched topic of PC in New Zealand, Table 4 also presents comments which highlight the novelty of different components of this study.

Table 4*Research design framework and methodological fit*

Research design component	Selected approach	My research, comments
Paradigm	Inductive	The study explores PC in New Zealand, an unresearched topic, and develops a conceptual framework through fieldwork data. The study develops a novel, holistic conceptual framework of PC in NZ that draws from (a) multiple literature streams (i.e., disruptive innovations theory, legitimacy and reputation building of new firms, real estate finance, and PC), and (b) primary data collected from interviews with various stakeholders. The study delivers a comprehensive literature review which builds a solid knowledge base for the PC field. This study is novel since no prior PC research has developed a detailed conceptual framework on PC, using multiple literature streams, such as offered in this study.
Ontology	Constructionism	‘Reality’ of phenomena is created by individuals who are involved in certain social situations whereby they create their own perspectives and meanings of the phenomena they encounter. This study offers novelty in two ways: (1) the topic of challenges and contextual factors affecting PC in NZ, and how the industry may strategically respond, has not been studied before, and (2) relevant stakeholders (PC platforms, banks, non-bank lenders, developers, etc) have thus far not yet been brought together to participate in a scholarly study of PC in NZ and share their knowledge, experience, and views about PC in NZ.
Epistemology	Interpretivism	Reality is context-dependant; it is based upon research participants’ perception of reality. This study also offers contextual novelty: prior studies have been conducted in mature PC markets overseas – they have been conducted in different contexts, with different research objectives, and using different frameworks/theories. No studies have academically examined PC in NZ, drawing from diverse stakeholders’ views.
State of prior work / theory	Nascent theoretical foundation – limited extant literature on PC, particularly for NZ.	Limited research on PC in NZ. Lack of conceptual framework on challenges and contextual factors affecting PC in New Zealand, and response strategies of the industry. Lack of data in a new industry.
Research question	Open-ended examination of a phenomenon of interest	<i>What challenges and contextual factors are affecting property crowdfunding in New Zealand, and how may the real estate project finance industry strategically respond to property crowdfunding?</i> Topic novelty is another feature that distinguishes this study from others: the PC sector in NZ is relatively new, the PC market in NZ has thus far been ignored by scholars, in part due to its nascent state, and the specific research question of this study has not been studied before.
Methodology	Qualitative	In-depth examination of phenomenon and concepts, seek deeper meaning of concepts, not the measurement of constructs and their variables.
Research methods: Primary data collection methods and types of data collected	<ul style="list-style-type: none"> ▪ One-to-one, in-depth semi-structured interviews ▪ Documents ▪ Field notes 	Qualitative, open-ended data which is open to interpretation. Rich, detailed data relevant to phenomenon under investigation. Extensive analysis of documents. To advance knowledge on the little understood topic of PC in New Zealand, this research utilized primary as well as secondary data.
Data analysis method, goal of data analysis, interpretation	Textual analysis of interview data, documents, and field notes.	Coding, categorising, thematic analysis to identify key themes and patterns, and develop a conceptual framework.
Theoretical contribution, contribution to literature	Develop initial / tentative theory, identify avenues for further research.	Develop a conceptual framework of challenges and contextual factors affecting property crowdfunding in New Zealand, response strategies of the industry, and recommendations on how to solve the key problems impacting PC platforms. A novel, holistic conceptual framework, which draws from different, multiple literature streams, and various stakeholder groups, to explain PC in NZ, an unresearched market, is advanced.
Write up	Descriptive, explanatory write-up.	Develop a conceptual framework, a detailed description of it.

Source: Adapted from/based on Bryman & Bell (2011), Creswell & Creswell (2017), Edmondson & McManus (2007)

4.5 Data collection methods

4.5.1 Desk research: Literature review

As presented in Chapter 2, an initial conceptual framework of challenges and contextual factors affecting property crowdfunding in New Zealand, and response strategies of the real estate project finance industry was developed from comprehensive review of the relevant literature. The literature review formed the theoretical basis of the study; it facilitated the development of an initial conceptual framework which guided field work research, and it also identified the knowledge gaps the study filled. The literature review also served three specific purposes in the research process, namely: (a) it guided the formulation of interview questions, (b) it afforded the researcher awareness of core concepts and themes related to the research question, and (c) it provided theoretical concepts which were later used to interpret the study's findings.

4.5.2 Desk research: Documents analysis

Desk research was used to collect qualitative grey literature on PC. Secondary data from documents were collected throughout the duration of my PhD study, and used to complement the primary data collected from interviews. Table 5 presents the different types, sources, and volumes of secondary data documents that were collated and examined in this study. Types of documents that were analysed include PC platforms websites; website of finance markets regulators (which include PC) in NZ, USA, UK, and Australia, among others; PC regulation documents, websites of bank and non-bank financiers of real estate projects in New Zealand, newspaper articles about PC in New Zealand and globally, consultancy reports on PC globally, videos about PC from PC platforms in NZ and overseas, and social media pages of PC

platforms in New Zealand, among others. To keep well-informed of, and up to date with all new content about PC in New Zealand and overseas, I set up an ‘alert’ with search engines so that I was notified whenever new newspaper articles, reports, documents, and journal articles about PC were published online. This enabled me to collect comprehensive secondary data from a wide array of document types, as presented in Table 5. Documents collected had data for New Zealand as well as for overseas PC markets such as USA and UK. While the focus of the study is New Zealand, data on overseas PC markets helped me to more in-depthly understand and analyse PC in New Zealand. While being cognizant of the fact that PC platforms in New Zealand, and PC platforms in USA and UK are not direct, similar, or equal comparisons; overseas PC data was used to understand how PC in New Zealand has progressed, relative to other countries. Overall, documents provided detailed and nuanced information and context about PC. Documents provided further insights into PC in New Zealand. In this study, I used documents to facilitate data triangulation.

Table 5*Summary of data collected and analysed*

Type of documents	Sources	Number of documents
<ul style="list-style-type: none"> ▪ PC Platforms websites ▪ Website of finance markets regulators (which include PC) in NZ, USA, UK, and Australia, among others ▪ PC regulation documents ▪ Government agency reports on PC ▪ Websites of banks, venture capital firms, and private equity firms that finance real estate projects in NZ ▪ Newspaper articles about PC in New Zealand and globally ▪ Consultancy reports on PC globally ▪ Field notes from pertinent events/conferences in NZ ▪ PowerPoint presentation about PC ▪ Videos about PC, from PC platforms in NZ and overseas ▪ Social media pages of PC platforms in NZ and overseas 	<ul style="list-style-type: none"> ▪ The Internet ▪ Massey University Library Academic and Newspapers Databases: <ul style="list-style-type: none"> ○ Index New Zealand ○ Business Monitor International ○ Google ○ Newtext Plus ○ Factiva ○ Business Source Premier (BSP) ○ Emerald Insight ○ Google Scholar ○ ABI/INFORM ○ Scopus ○ JSTOR ○ ScienceDirect ○ Wiley Online Library ▪ Periodical magazines on technology & finance from the Massey University Library 	<ul style="list-style-type: none"> ▪ 100+ websites visited (PC platforms and PC regulators) globally. ▪ 60+ reports, white papers, documents about PC. ▪ 30+ newspaper articles from newspapers in NZ and globally ▪ 30+ posts about PC from financial company websites ▪ 20+ videos about PC ▪ 5+ consultancy reports on PC, tech-enabled innovative finance, and fintech ▪ 2 university-published (University of Oxford) Proptech research reports (which included PC) ▪ 2 PowerPoint presentation for educating New Zealanders about PC & promoting PC, presented by NZ PC platform founders/managers

Defining documents

Documents are texts containing evidence or records of phenomena; they can be used in research as vital sources of data (Myers, 2013; Wolff, 2004). In qualitative research, documents can be utilized in conjunction with other data gathering tools for triangulation purposes to increase credibility of the study's findings (Bowen, 2009; Denzin & Lincoln, 2011). In this study, using document analysis offered me numerous benefits, including efficiency, cost-effectiveness,

broad coverage, and lack of obtrusiveness. Using documents sourced from reliable sources on the Internet was an efficient and fast way to collate a large volume of data on PC.

Document types

Braun and Clarke (2013) posit that documents include a variety of materials obtained in broadcast media, electronic, and printed copy formats. Researchers can use a variety of documents, ranging on a continuum from ‘informal’ to ‘formal’ or ‘official’ (Hammersley & Atkinson, 1995). Mass media outputs, for instance, newspapers and magazine articles; and virtual outputs for example Internet sources are potential sources of documents (Bryman, 2015). Virtual documents that can be utilized as data sources include official documents published on the Internet, websites, blogs, forums, and message boards (Bryman, 2015). Documents include official public documents such as government agency publications, consultancy reports, policy statements, and others (Scott, 1990). Documents also include official private documents created by private sector businesses, trade unions, think tanks, non-governmental organisations, and private individuals (Scott, 1990). These consist of articles, reports, white papers, press releases, websites, project reports, among others. In this study, I used mostly formal/official documents.

Defining document analysis

Document analysis involves examining pre-existing, publicly available documents containing textual data about a topic under investigation and interpret the data to gain more understanding of that topic (Bowen, 2009; Payne & Payne, 2004). In this study, document analysis helped me to contextualise and substantiate data collected through interviews within the same study, raise

my awareness of key issues about the topic, thereby helping me in addressing the study's research questions.

Documents were evaluated to ensure that authentic, high quality documents with accurate data are used. Quality control is important when working with documents, especially when using the Internet to source the documents (Gaborone, 2006). Numerous scholars have advanced criteria for evaluating documents (e.g., Guba & Lincoln, 1981; Payne & Payne, 2004; Scott, 1990). To evaluate collected documents, and ensure that I used only high quality documents, I used Scott's (1990) four criteria for evaluating documents, namely authenticity, credibility, representation, and meaning.

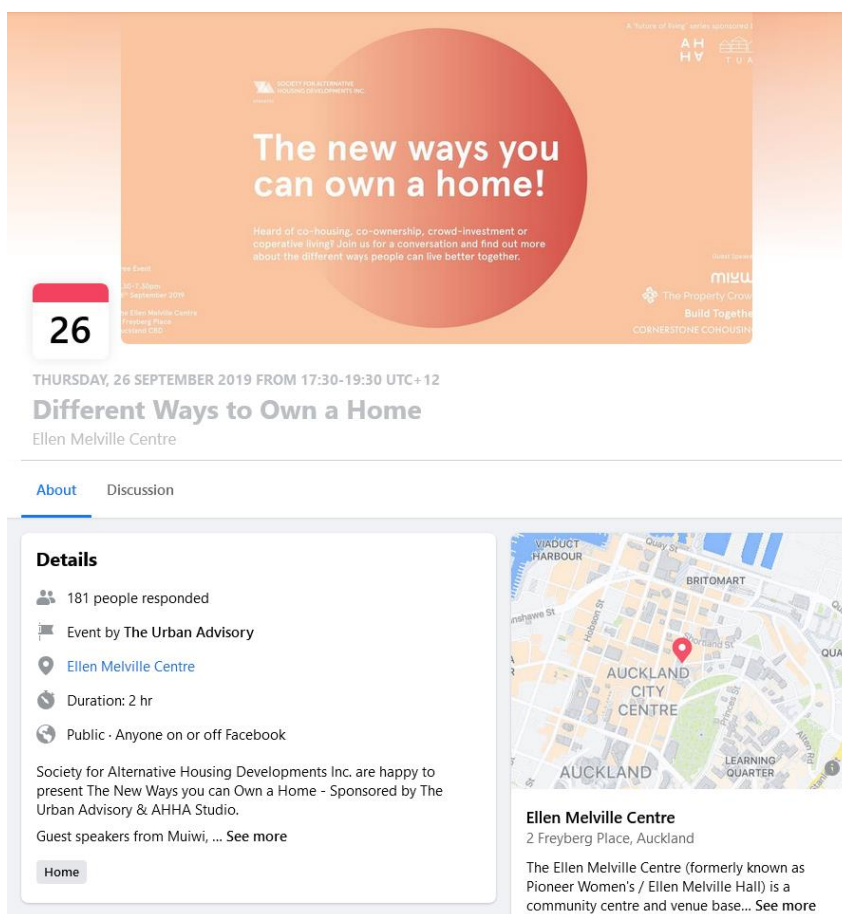
4.5.3 Field observation and field notes

Field observations and field notes were utilized to gather data, and supplement the data collected from interviews and documents. Researchers can gather useful data about their research through field observations (Kawulich, 2012; Papen, 2019). Therefore, during the course of this research, I attended seminars where PC platform founders made presentations about their platforms, aimed at educating New Zealanders about PC, and promoting their platforms. During these seminars, I made field observations which helped me to achieve a deeper understanding of PC in New Zealand, and also provide additional context and support for the data collected from interviews. I recorded these field observations through detailed field notes following the approach recommended by Ciesielska et al. (2018).

In September 2019, I attended an event in Auckland City about new approaches to home ownership, Figure 20. The event was organized by the Urban Advisory, an Auckland-based firm that handles projects in the property industry. Some of the PC platforms' founders made presentations about their platforms at this event, which I recorded in my field notes.

Figure 20

New approaches to home ownership event, 2019, Auckland



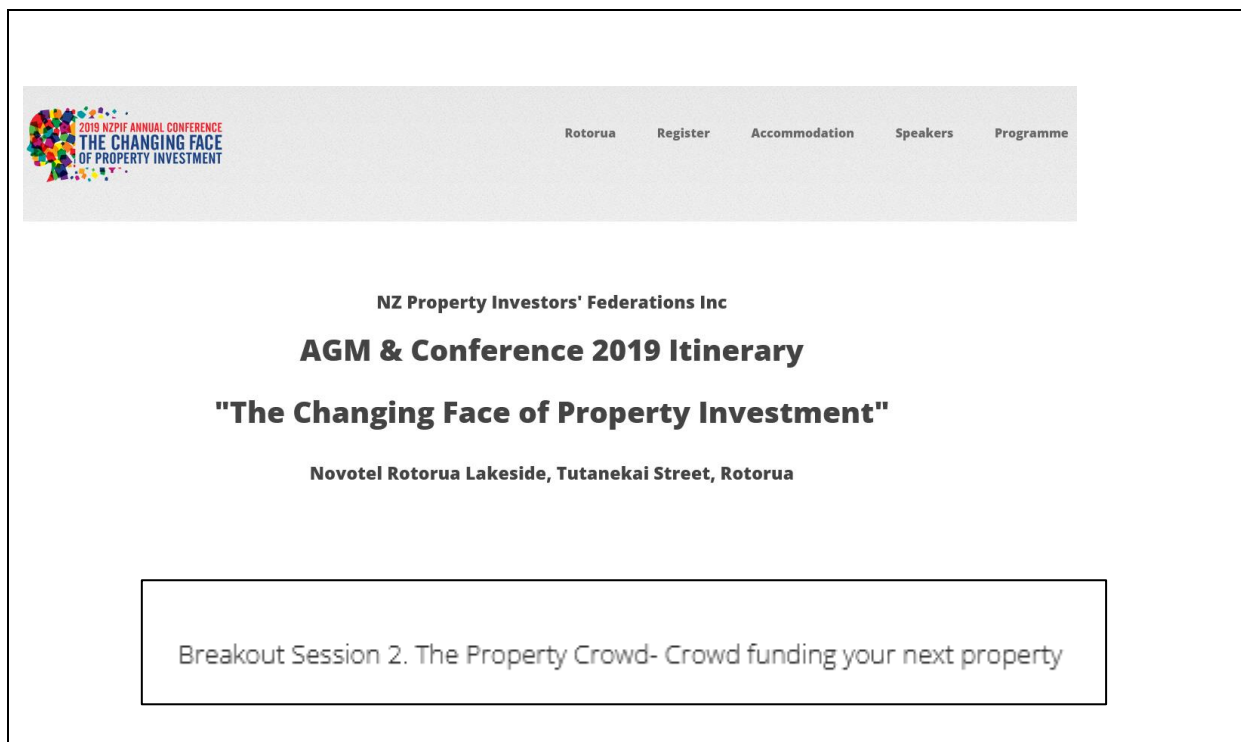
Source: Facebook Events (2019)

A conference about changes in property investing was held in Rotorua between 18-20th October 2019, and a PC platform CEO presented at this event, on how New Zealanders can finance property through PC, as shown in Figure 21. The event included a break-out session on property

crowdfunding, led by the PC platform CEO, as shown in Figure 21. Although I was not able to attend this event, the PC platform CEO provided me with the PowerPoint presentation which they had presented at the conference, partly shown in Figure 22.

Figure 21

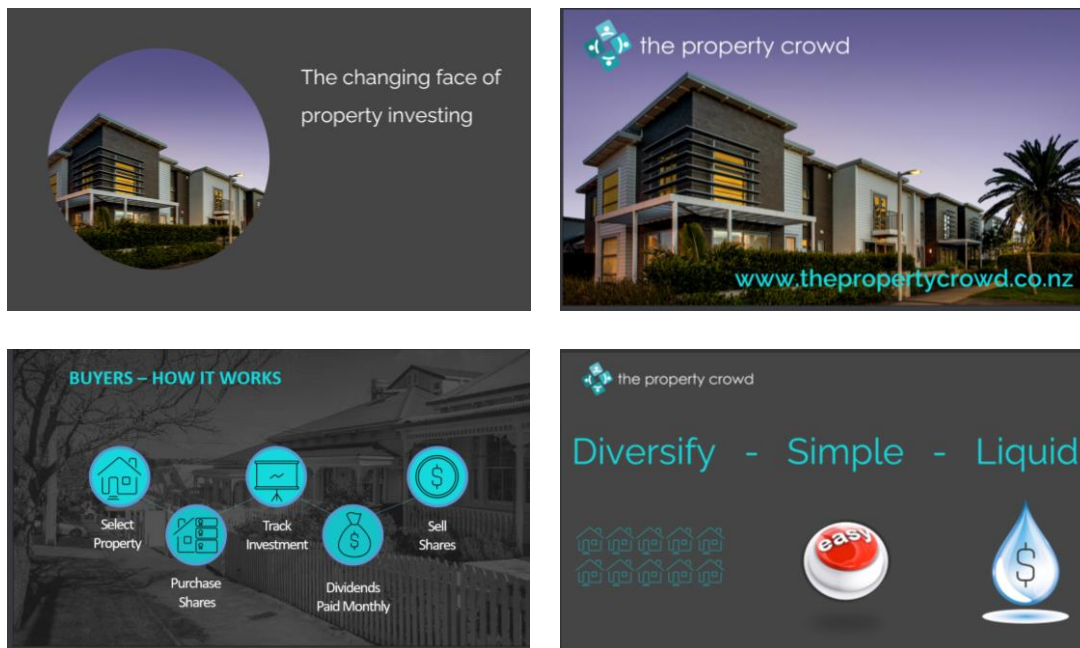
A conference on changes in property investing, 2019, Rotorua



Source: New Zealand Property Investors' Federation (NZPIF), 2019

Figure 22

The Property Crowd's presentation at Rotorua NZPIF Conference



Source: Provided by PC platform CEO

4.5.4 One-to-one and in-depth interviews

In-depth, one-to-one semi structured interviews with different key stakeholders were used to gather primary data used in this study. Interviews facilitate documenting research participants' ideas, knowledge, and perspectives about a phenomenon within a defined context. Semi-structured interviews facilitated asking specific questions, with the ability to change the order of the questions, and/or ask further, probing questions to obtain more insights important for the study. Different question types were used, namely 'directing', 'probing', 'specifying', 'following up' 'interpreting' and 'structuring' questions, as recommended by Fontana and Frey (2000), Kvale (1996a) and Kvale and Flick (2007). These types of questions enabled and encouraged the interviewees to freely offer pertinent information on the topic under

investigation. Semi-structured interviews facilitated collecting detailed data focused on the research question, while also allowing other important, relevant insights, based on interviewees' knowledge and experience, to be uncovered.

The interviews were conducted using an interview guide with a series of pre-prepared, open-ended interview questions. I followed Bryman and Bell's (2011), Kvale's (1996b), and Taylor et al.'s (2015) guidelines for creating an interview guide and for developing the semi-structured in-depth interview questions for this study, which are presented in Appendix A. Although I entered the interviews with the pre-prepared interview questions, interviewees were allowed to elaborate on important, pertinent issues; and I followed up on interesting points the interviewees raised, with the interview guide acting as a high-level plan of the topics to be addressed in the interview.

4.5.4.1 Ethical considerations

Field-based research involves ethical considerations, and this includes protecting the identity and privacy of the participants (Kvale & Flick, 2007; Levinson, 2010). Massey University's *Code of Ethical Conduct for Research, Teaching & Evaluations Involving Human Participants* applies to this study, and was complied with, at all stages of the research. In accordance with the University's research regulations, a Human Ethics application was submitted to the Massey University Human Ethics Committee (MUHEC), and an approval was obtained. MUHEC assessed this study's ethical implications and decided that it conforms with guidelines for "Low Risk" certification (Ethics Notification - 4000020644, issued on 5 March 2019). A copy of the Ethics Notification is provided in Appendix C.

The main ethical issues for this study were to ensure voluntary participation, and confidentiality and anonymity of research participants. The Invitation Letter sent to participants (Appendix B) assured them anonymity and confidentiality, and this was reiterated at the beginning of the interview with every participant. The Invitation Letter also informed the participants that their participation in the research project was voluntary, and that they could withdraw from participating in the research at any time if they wish to do so. At the beginning of every interview, I informed the interviewees that they could request to stop the audio recording at any time. Research participants were also informed that the interview audio recordings and the interview transcripts will be handled with strict confidentiality.

4.5.4.2 Interview sample and participants

A theoretical sampling technique was used, consistent with the study's goal to develop a conceptual framework. The target interview sample was defined as senior executives involved in banking, real estate project finance, PC, and property development and investing. Purposive (purposeful) sampling (Bryman & Bell, 2011; Bell et al., 2022) was used to strategically select interviewees – those sampled were relevant to the research question posed by this study; their knowledge and experience deemed them able to provide data being sought, and make valuable contribution to this research. Snowball sampling or 'networking' sampling (Biernacki & Waldorf, 1981), was also utilized: an initial contact was made with a few of the key diverse participants who were the most particularly knowledgeable and involved in PC, and these were then used to create contact with others, thereby recruiting additional participants into the research. According to Bryman and Bell (2011), researchers must ensure variety in their sample

when using purposive sampling. Therefore, I ensured that a wide range of participants were recruited and interviewed.

The selection criteria I used to select research participants included being: (a) founders and managers of PC platforms, (b) senior bank and non-bank executives involved in financing real estate projects, (c) property developers, (d) property investors and property syndicates, and (e) leading experts and professionals in property and housing in New Zealand (e.g., real estate agencies, economists, consultants). According to Creswell and Creswell (2017), in interview-based qualitative research, the participants must be highly informed and knowledgeable about the topic being investigated. The inclusion criteria I used to select the experts to participate in this study was based on the leadership roles the experts have in their respective organizations and departments, and the extent of their experience in their respective areas. The exclusion criterion for bank and non-bank financing executives, developers, investors, and leading experts was those who did not have more than ten years' worth of experience in their respective fields. Although the exclusion criterion specified less than ten years' experience, after careful consideration, one interviewee (P7) with six years of experience (see Table 5) was included, as his prior experience with a New Zealand PC platform, and with an American multinational private equity and financial services firm, suggested his knowledge would be highly useful and relevant for my study.

According to Pettigrew (1990), scholars must ensure that research participants are sufficiently different to allow different responses and viewpoints about the phenomenon being investigated. This study's sample composition was (i) eight property finance lenders, (ii) eight PC platform founders/managers, (iii) eight property developers, investors, and syndicates, and (iv) seven property experts and related professionals. The justification of the sample composition was to

have participants from different backgrounds, with diverse knowledge and insights about PC, thereby enabling me to ask probing questions to experts from various stakeholder groups, and gather diverse insights, ideas, and perspectives relating to PC. The sample composition was representative of key stakeholder groups relevant to the research topic, and individuals who can provide in-depth and knowledgeable insights to the numerous questions in this research. Limitations of the sample size, and potential limitations and biases associated with the sample selection process are discussed in Section 7.7.

The sample size of this research was determined by theoretical saturation (Creswell & Creswell, 2017). A judgement was made during the data collection process when no new or relevant data was being discovered; or was emerging from additional interviews; information was becoming repetitive, all categories and themes of the research were well-developed and demonstrated variation in their data.

Overall, 31 highly informed senior-level executives and experts that included bank and non-bank property finance lenders, PC platform founders and managers, property developers, property investors, property syndicators, and property financing experts, were interviewed. The interviews were conducted during 2019-2020. Well-informed respondents who could provide relevant and useful insights on the research problem; whose knowledge and experience made valuable contributions to the study, to help delve into the phenomena under investigation, were selected. Most of the interviewees had decades' worth of experience in their respective industries or sectors, and held senior positions in their organizations, thus making them well-positioned to answer a wide range of questions posed to them regarding PC. The in-depth interviews were performed face to face and through Skype. For most of the interviews, the

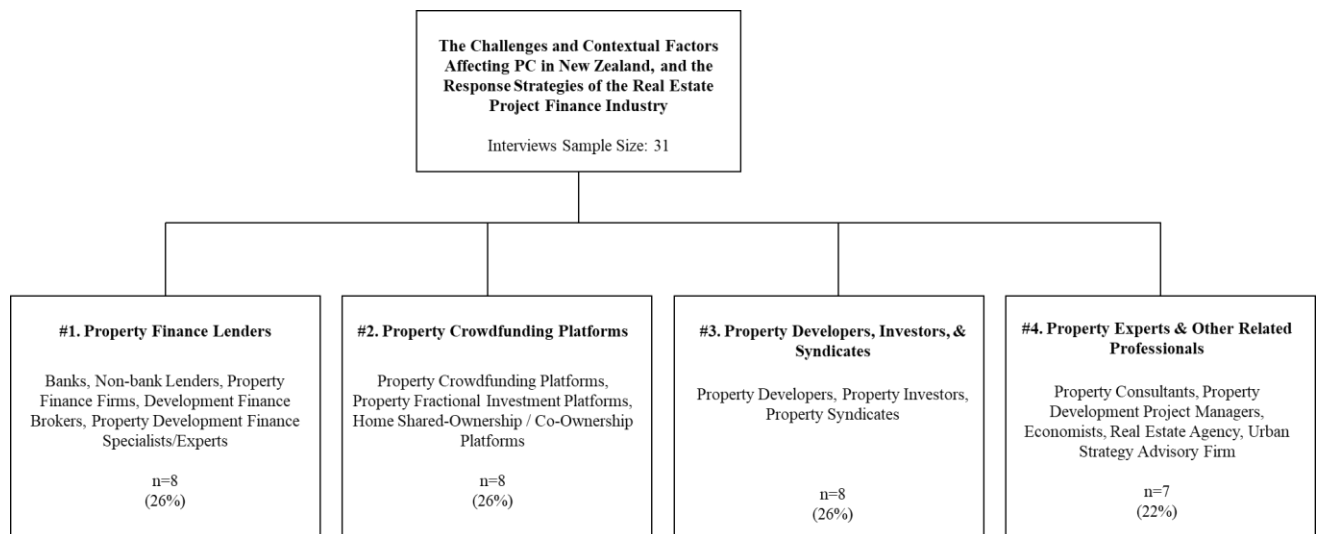
average interview time was approximately one hour per participant. The interviewees who participated in this study fall into four broad categories, namely:

- 1) Property finance lenders,
- 2) Property crowdfunding platforms,
- 3) Property developers, investors, and syndicates, and
- 4) Property experts and other related professionals.

Figure 23 is an overview of the interviewees. The figure also illustrates the share of the sample of the four categories of interview participants selected for this research. These are: (1) property finance lenders – 26%, (2) PC platforms – 26%, (3) property developers, investors, and syndicates – 26%, and (4) property experts and related professionals – 22%.

Figure 23

Interview sample



Each of the research participants provided extensive and valuable data, given the high ranking positions they hold in their organizations; the leading positions their organizations hold in New Zealand, and their vast knowledge and experience in the industry.

Some of the interviewees, owing to their extensive experience working in the banking, real estate project finance, and property development industries; had previously been consulted by PC platform founders to advise on operational and growth strategies for the platforms. They gave their knowledge, experience, time, and effort to help PC platforms to grow, and try to build a PC sector in New Zealand. Further, a handful of these interviewees had taken executive advisor positions on some of the platforms, and, as one interviewee stated, had given “sweat equity” to the PC platforms, a common feature of start-up companies (Long et al., 2022).

Some interviewees had worked on Fulqrum, the first PC platform that failed to take off after extensive marketing, and some capital injections. Icehouse Ventures, a venture capital business arm of The Icehouse Limited, a business growth-focused company in New Zealand, invested in, and acquired a stake in the PC platform Fulqrum (NBR, 2017; NZ Companies Office, 2022). With the assistance of leading finance and property experts in New Zealand, who were interviewed in this study, Fulqrum had gone through several iterations of its model and platform, in an effort to make it successful, before eventually closing down. These interviewees had worked hard to make Fulqrum successful, but the platform failed to gain traction. The interviewees shared their experiences, views, and observations, in this study. Therefore, drawing from their broad knowledge and experience on real estate project financing and investing in New Zealand, as well as their direct experience from PC platforms, the interviewees provided valuable data to this study. Specifically, the interviewees were well informed about the challenges PC platforms have been facing, and unique New Zealand

contextual factors that have been hampering the growth of PC in the country. As PC struggled to grow in New Zealand, there have been property industry, PC sector, and platform-level meetings and discussions about how PC might be improved, and make it work in New Zealand. Therefore, the interviewees, some of whom had been involved in these meetings and discussions, were well-positioned to provide very useful data for this research because they had had time to contemplate and reflect upon PC in New Zealand.

This study benefited from the fact that the selected interviewees had been directly involved in PC in one way or another: either through banks that were hoping to work with the PC platforms; developers who were the potential intended users of platforms (a few of whom had been approached by the platforms), and PC platform founders and managers who have been working to get their platforms off the ground, and continue to do so.

All the interviewees were very generous with their time; they were all very supportive of the research project, and were very enthusiastic to get involved, answer my research questions, and share their knowledge and insights, and provide information. From each of the interviews, comprehensive data was collected.

4.5.4.3 Categories of interviewees

The categories of interviewees are described as follows.

- 1. Property Finance Lenders (n=8): *Banks, Non-bank Lenders, Property Finance Firms, Development Finance Brokers, Property Development Finance Specialists/Experts.***

This category of interviewees is comprised of banks, non-bank lenders, property finance firms, development finance brokers, and property development finance specialists/experts. The interviewees are current or prior employees of the four main banks in New Zealand, namely ANZ, ASB Bank, BNZ, and Westpac. The interviewees hold or have held senior level positions in their organizations; are heavily involved in real estate finance in New Zealand, with decades of experience overseeing financing of real estate development projects of various sizes, from large to small, throughout the country. These interviewees accounted for 26% of the total sample.

- 2. Property Crowdfunding Platforms (n=8): *Property Crowdfunding Platforms, Property Fractional Investment Platforms, Home Shared-Ownership / Co-Ownership Platforms.***

This category of interviewees is composed of PC platforms, property fractional investment platforms, and home shared ownership/co-ownership platforms. The interviewees are founders and managers of platforms and firms offering innovative, alternative means of financing property and home ownership. These interviews made up 26% of the total respondents interviewed.

3. Property Developers, Investors, & Syndicates (n=8): *Property Developers, Property Investors, Property Syndicates.*

This category of interviewees consisted of property developers, property investors, and property syndicates. All interviewees are senior executives in their respective organizations. These interviewees also accounted for 26% of the total sample.

4. Property Experts & Other Related Professionals (n=7): *Property Consultants, Property Development Project Managers, Economists, Real Estate Agency, Urban Strategy Advisory Firm.*

This category of interviewees is comprised of property consultants, a property development project manager, an economist, a real estate agent firm, and an urban strategy advisory firm. These interviewees were informed property people who are very knowledgeable on property financing and property development in New Zealand. These interviews made up 22% of the total respondents interviewed.

4.5.4.4 Interviewees' profiles

Table 6 presents interviewees' profiles. Their roles in their respective organizations; the type of organization, their years of experience, their experience in real estate finance, and experience in PC are presented. The background and experience of the interviewees are further described in the subsequent section.

Table 6*Profiles of interviewees*

Research Participant Code	Designation / Role in organization	Organization Type	Years of experience in property/property finance	Experience with property / property finance / finance	Experience with property crowdfunding
Category 1: Property Finance Lenders & Advisors					
P1	Departmental Head	Bank	≥ 10 years	Works for one of the four biggest banks in NZ.	Has engaged with PC platforms in NZ.
P2	Managing Director	Bank	≥ 30 years	Managing director of a small investment bank. Extensive experience in investment banking and in the capital markets in NZ.	Managing Director of one of FMA-licenced equity-based crowd funding platforms in NZ.
P3	Lending Executive	Bank	≥ 10 years	Experience in arranging lending for numerous, big property projects in NZ and previously in Europe.	Lending executive at one of the equity crowdfunding platforms in NZ.
P4	Executive Director	Non-bank Lender	≥ 15 years	Provides commercial, residential and development finance throughout NZ.	Familiar with PC in NZ.
P5	Director / Banking Specialist	Banking / Consultancy / Advisory Firm	≥ 25 years	Provides financial and banking services, equity & debt structuring and placement, senior debt, mezzanine debt and second mortgages.	Has previously worked for a PC platform.
P6	Executive Director	Consultancy for financial solutions & chartered accountants	≥ 40 years	An expert in banking & property, helps developers find suitable funding for their projects. Has in-depth knowledge and experience in financing property in NZ.	Familiar with PC in NZ.
P7	Investment Banking Analyst	Banking & investment advisory firm	≥ 5 years	With a background in investment banking, they work for one of NZ's largest investment advisory firms. Previously worked for an American multinational private equity, investment, and financial services firm.	Previously worked for a property development crowdfunding platform in NZ.
P8	Director	Property financing firm	≥ 25 years	Has worked in banking, property finance, and funds management across NZ and previously in the UK. Has held high level executive roles at two of NZ's four main banks.	Held position of director at one of the crowdfunding platforms in NZ.

Research Participant Code	Designation / Role in organization	Organization Type	Years of experience in property/property finance	Experience with property / property finance / finance	Experience with property crowdfunding
Category 2: Property Crowdfunding Platforms					
P9	CEO	PC platform	≥ 5 years	N/A or Nil	Founder & CEO of one of FMA-licenced PC platforms in NZ.
P10	CEO	A crowdfunding platform which offers project and equity crowdfunding	≥ 10 years	Managed a successful community-driven PC campaign.	Founder & CEO of one of FMA-licenced projects & equity-based crowd funding platforms in NZ.
P11	Managing Director	Equity crowdfunding & PC platform	≥ 10 years	More than 10 years' work experience in financial services. Worked for two of the four largest banks in NZ. Also founded and managed a successful mortgage broking business in NZ.	Managing Director of one of FMA-licenced equity-based crowd funding & PC platforms in NZ.
P12	Head of Development Team	PC platform in Europe	≥ 15 years	Has over 15 years' experience in enterprise finances; worked as a financial analyst and controller; worked as a business consultant in the SME sector in Europe.	Senior executive at one of the leading PC platforms in Europe.
P13	Founder & CEO	Property fractional investing platform in Australia	≥ 15 years	Has over 15 years' experience in financial services and fund management.	Founder & CEO of the first registered fractional investment platform in Australia.
P14	Founder & CEO	PC platform in USA	≥ 35 years	Has over 35 years' experience in the banking and financial services sectors in USA. Has advised on multi-million dollar transactions in USA banks.	Founder & CEO of one of the leading PC platforms in USA.
P15	Co-Founder	Home Co-Ownership Platform	≥ 10 years	Has worked in financial services for over a decade.	Co-founded a platform that aims to make home ownership achievable by arranging home co-ownership for people.
P16	Founder & Director	Home Shared Ownership Platform	≥ 20 years	Has background in private banking, funds management and asset management. Runs a co-ownership housing programme that enables first home buyers to afford their own homes through shared ownership.	Has experience in shared purchasing/investing in houses in UK and in NZ. Has extensive experience in shared home ownership programmes in the UK.

Research Participant Code	Designation / Role in organization	Organization Type	Years of experience in property/property finance	Experience with property / property finance / finance	Experience with property crowdfunding
Category 3: Property Developers, Property Investors, Property Syndicates					
P17	Director	Commercial property syndication firm / property syndication	≥ 20 years	Manages proportionate ownership companies for real estate investments. Manages commercial property investment syndicates in NZ.	Manages a property syndication firm. Manages property investing proportionate ownership companies. Manages commercial property investment syndicates that purchase & invest in commercial property on behalf of investors in NZ.
P18	Director	Property Investor & Developer	≥ 20 years	A private property investor and developer in New Zealand.	Knowledgeable about PC.
P19	Director	Property Investor	≥ 10 years	Worked as lending manager for one of the four biggest banks in NZ. Also, a private property investor in New Zealand.	Has written articles in the media about PC.
P20	Director	Property Investor & Developer	≥ 20 years	Has been involved in property investing & development in NZ for the last 20 years.	Knowledgeable about PC.
P21	Director	Property Investor	≥ 20 years	Has been investing in property in NZ for the last 20 years.	Knowledgeable and familiar with PC.
P22	Director	Property Investing company	≥ 15 years	Experience in property, property financing and investing, and property investing coaching.	Has facilitated numerous home co-ownership deals. Knowledgeable about PC.
P23	Director	Property Investor & Developer	≥ 15 years	Has been investing in completed property and construction projects in NZ for the last 20 years.	Knowledgeable about PC.
P24	Business Development Manager & Syndication Sales	Property Investing & Syndication Firm	≥ 20 years	Extensive experience in the financial services industry in NZ, Hong Kong & Japan. Works on commercial property syndications in NZ.	Knowledgeable about PC.

Research Participant Code	Designation / Role in organization	Organization Type	Years of experience in property/property finance	Experience with property / property finance / finance	Experience with property crowdfunding
Category 4: Property experts and other related professionals					
P25	Economist	Economists Consultancy Firm	≥ 10 years	A leading speaker, commentator, and author on the topic of property and housing in NZ.	Knowledgeable about PC.
P26	Departmental Head	Investment advisory firm	≥ 15 years	Regular presence in business media, commenting about property, property finance, etc. Advises clients on investment strategies; property financing & investing, asset allocation, and portfolio recommendations, to help clients build wealth.	Has commented on PC in the business media in NZ.
P27	Director / Business Advisor & Chartered Accountant	Business Advisory & Chartered Accountants Firm	≥ 10 years	Business advisor to the property sector specialising in investing strategy, financial management, structuring, asset management and taxation.	Held position of director at a property development crowdfunding platform in NZ.
P28	Advisor	Financial advice and broking services firm	≥ 10 years	Advises investors on investing across all sectors, including property.	Has written about equity crowdfunding in NZ in the media.
P29	Project Manager	Construction projects management firm	≥ 10 years	Has a background in property and property development, and has worked on numerous construction projects in NZ.	Previously worked for a crowdfunding platform in NZ.
P30	Managing Director	Real estate agency	≥ 30 years	Founder and director of a leading real estate agency in Auckland. Extensive experience in both residential and commercial real estate.	Recently launched a company that matches people who want to buy/invest in a property with other buyers/investors as a small group of less than five people.
P31	Director	Urban innovation advisory firm	≥ 10 years	Has worked with private developers, advising on housing developments/construction projects. Works extensively with the public sector/government. Provides consultancy services on urban innovation and the built environment.	Knowledgeable about PC.

Interviewees' Profiles

Presented below are brief profiles of interviewees. The profiles outline the interviewees' background and experience, thereby highlight their ability and appropriateness to answer the study's research questions. In line with the ethical obligations of this study, in writing these profiles, an effort was made to safeguard the anonymity of these interviewees.

Category 1 – Property finance lenders

P1 – A senior executive at one of the four main banks

This interviewee is a director at one of the four largest banks in New Zealand, with over ten years' experience in banking. They are involved with the bank's fintech initiatives and services, focused on innovative, digital technologies, and brand partnerships. This interviewee has actively engaged with, and had held some initial discussions with PC platforms, home shared ownership platforms, and a property fractionalised investing platform in New Zealand, in an attempt to explore how the bank might collaborate with these platforms in financing property projects and home loans.

P2 – Managing director of a boutique investment bank

This interviewee is a managing director of a small investment bank that serves companies across all industries in New Zealand. They have more than 30 years' experience in investment banking and in the capital markets. This interviewee is also founder/managing director of one of FMA-licenced equity-based crowd funding platforms in New Zealand, focused on providing equity crowdfunding services to companies across all industries, including real estate, looking to raise equity. This interviewee founded the platform to make finance more accessible by

giving more financing options to their customers, that is, for the firm's customers/borrowers who may lack sufficient equity to raise the equity they need on the platform, so that they can then borrow from the bank. The interviewee launched a new website whose aim was to inform and educate New Zealanders about investing in property through crowdfunding.

P3 – A property finance lending executive

This interviewee is a lending executive at New Zealand's leading crowdfunding platform that provides project and equity crowdfunding across all industries. They have a background in banking and real estate lending in Europe, with over ten years' experience in property financing. This interviewee has been involved in crowdfunded financing of various projects in different sectors, including property.

P4 – A non-bank property finance lender

This interviewee is an executive director of a leading non-bank lender firm offering residential, commercial and development finance throughout New Zealand. They have 15 years' experience in property financing. The interviewee's firm works with developers, home builders, and investors throughout New Zealand to provide customized commercial, residential and development finance for various projects, from single residential houses to large, staged subdivisions for housing. The interviewee specialises in sourcing and arranging a wide range of funding solutions, namely development and construction finance, bridging finance, residential loans, commercial and industrial loans, and landbank underwrites. According to the website of the interviewee's firm, the firm has funded in excess of 400 new builds and over 300 sections throughout New Zealand, and has facilitated over \$2 billion in funding for property development projects throughout New Zealand. The firm provides tailored funding packages for a wide range of project sizes, from NZ\$200,000 to NZ\$30,000,000. In financing

property projects, the firm also collaborates with two of the four largest banks in New Zealand. In their personal capacity, the interviewee is also a private property developer and investor.

P5 – Director and banking specialist

This interviewee is a director of a banking consultancy/advisory firm, with 25 years' experience in the industry. The firm provides financial and banking advice and services; equity and debt structuring and placement, and property development financing and investment advice. They help developers and investors find suitable finance to fund their property developments and/or investments; including equity, senior debt, mezzanine debt and second mortgages for their projects. The interviewee has previously held several high level positions at several banks in New Zealand. They held the position of Property Finance Manager at one of New Zealand's four main banks, and also held the position of Head of Commercial Banking and Property Finance at one of the smaller banks in New Zealand. The interviewee also held the position of Finance Team Lead at a large scale property development in Auckland, covering 1,000 Ha of rural land, producing 12,000 homes over several years, undertaken in several stages or phases. The interviewee was also Head of Property and Commercial at the New Zealand branch office of a Chinese multinational bank, Industrial and Commercial Bank of China. Recently, the interviewee held the position of director of finance at the first property development crowdfunding platform in New Zealand, which subsequently shut down and lost its FMA-issued licence due to lack of activity on the platform.

P6 –Executive director of financial services firm

This interviewee is an executive director of a consultancy for financial solutions and chartered accountants, with over 40 years' worth of experience in the industry. Their organization consists of bankers, accountants, economists, property specialists, financial analysts, and

project managers. The interviewee has in-depth knowledge and experience in financing property in New Zealand. They have experience in working with multiple sources of finance, to provide property projects owners of all sizes with funding solutions suited to their circumstances.

P7 – Investment Banking Analyst at an investment advisory firm

This interviewee is an investment banking analyst at one of the largest investment advisory firms in New Zealand, offering investment advice for private investors and corporates. With a background in investment banking, the interviewee previously worked for an American multinational private equity, investment, and financial services firm. The interviewee previously worked as an investment analyst at one of the PC platforms in New Zealand.

P8 – Director at a property financing firm

This interviewee is a director at a property financing firm. The firm advises, transacts, and invests in commercial property and property development in New Zealand. The interviewee has more than 25 years of working experience in banking, property finance, and funds management across New Zealand and the UK. They have held high level executive roles at two of the four main banks – during the past 15 years, they held the positions of general manager at two of New Zealand’s four largest banks. They also previously held position of director at one of the PC platforms in New Zealand.

Category 2 – Crowdfunding platforms

P9 – CEO of a New Zealand property crowdfunding platform

This interviewee is founder and CEO of one of the FMA-licenced PC platforms in New Zealand. They have a background in business strategy, and regulation management and compliance. The interviewee founded the platform to assist property developers raise capital while providing investors/the general public with investment opportunities in real estate development. This interviewee held meetings with four largest banks in New Zealand, seeking collaboration opportunities in financing property projects between their PC platform and banks. In November 2019 (just before the Covid-19 pandemic arrived in Europe and New Zealand), this interviewee invited and arranged for a senior executive from a successful platform in Europe (Interviewee #P12), to come to Auckland and discuss strategies for improving their platform's performance. Around the time the interview was conducted, before the Covid-19 outbreak, this interviewee was actively promoting their platform and educating New Zealanders about PC, at property conferences and events.

P10 – Founder and CEO of a New Zealand projects and equity-based crowdfunding platform

This interviewee is founder and CEO of a leading crowdfunding platform in New Zealand that offers project, equity and lending-based crowdfunding. The interviewee has ten years' experience in crowdfunding and managed a successful community-driven property crowdfunding campaign on the platform.

P11 – Managing director of an equity crowdfunding and property crowdfunding platform.

The interviewee is a managing director of one of the FMA-licenced equity-based crowd funding and PC platforms in New Zealand. With more than a decade of experience, they have previously worked for two of the four main banks in New Zealand. They have also previously founded and operated a successful mortgage broking business.

P12 – Head of development team at a leading crowdfunding platform in Europe

This interviewee is a senior executive at one of the leading pan-European PC platforms, with offices in the UK, Finland, Latvia, Estonia, and Lithuania. The platform was founded in Estonia and quickly grew to other European countries. The interviewee was involved in the conceptualization and development of this platform from the start. Their background and areas of expertise are banking and crowdfunding platforms. They have over 15 years' experience in enterprise finances; worked as a financial analyst and controller, and worked as a business consultant in the SME sector in Europe. Following a request and an invitation by Interviewee #9, this interviewee (#P12) came to Auckland in November 2019 to discuss strategies for growing Interviewee #9's platform. I interviewed P12 when they were in Auckland for this purpose.

P13 – Founder and CEO of a property fractional investment platform in Australia

This interviewee is founder and CEO of a leading property fractional investing platform in Australia. They have 15 years' experience in the property and property finance sectors. Through fractional investing, the interviewee's platform enables investors to make investments in residential and commercial properties in Australia.

P14 – Founder and CEO of a leading PC platform in USA

This interviewee is founder and CEO of one of the leading, successful PC platforms in USA. They have over 35 years' experience in banking and finance. They have also advised on multi-million dollar transactions in some of the largest USA banks.

P15 – Co-founder of a home co-ownership platform

This interviewee is a co-founder of a home co-ownership platform in New Zealand. Using online tools and social media, and an App, the company links or connects first-home purchasers and property investors so that they can combine their deposits and buy homes together in a shared-ownership arrangement. This interviewee has more than a decade worth of experience in the financial services industry. Around the time I conducted the interview, this participant was actively promoting their platform through property conferences and seminars.

P16 – Founder and director of a home shared ownership platform.

This interviewee is a founder and director of a home shared ownership platform in New Zealand. They have a background in private banking, funds management and asset management. They previously worked for a leading charitable trust that provides affordable housing options for working New Zealand households. The interviewee has experience from the UK working with shared ownership companies. In 2019, this platform partnered with one of the four largest banks in New Zealand to offer a shared home-ownership scheme targeting first home buyers.

Category 3 – Property developers, investors, and syndicates

P17 – Director of a property syndication firm

This interviewee is a director of one of the leading property syndication firms in New Zealand. The company gives New Zealanders an opportunity to own shares in companies which own commercial property. The firm offers ‘managed investments’ whereby it creates individual investment syndicates to acquire commercial properties, with investors offered shares and investing in these syndicates, with the minimum investment being \$50,000. The interviewee has more than 20 years’ experience in property syndication, and property finance and investment.

P18 – Private property investor

This interviewee is a prominent private property investor and developer in New Zealand, with a reportedly large portfolio of investment properties in major cities across the country. This participant has been in the media being interviewed about property and property financing and investing in New Zealand.

P19 – Private property investor

This interviewee is a private property investor with a large portfolio of properties in Auckland. The interviewee has experience in banking, having held a role of lending manager at one of the largest banks in New Zealand.

P20 – Property investor and developer

This interviewee has been involved in property development and property investing for the last 20 years. They hold a large property portfolio, with assets in several cities in New Zealand, primarily in Auckland, Wellington, and Hamilton.

P21 – Private property investor

This interviewee has been a property investor for over 20 years, and holds portfolio of residential and commercial properties, relatively smaller compared to interviewees P18, P19, and P20.

P22 – Director of a property investing company

This interviewee is a director of one of New Zealand's leading property investment companies. The interviewee has experience in property financing and investing.

P23 – Director of an organization for property investors/rental properties owners

This interviewee is a director of an organization for property investors/rental property owners in New Zealand. The interviewee is also a leading property investor in New Zealand, having been investing in both new and existing residential and commercial property for the past 15 years. The interviewee regularly gives speeches at property seminars and conferences in New Zealand, and regularly writes articles in top business newspapers in the country.

P24 – Business development manager at a property investing and syndication firm

This interviewee is a business development manager at a property investing and syndication firm. The interviewee has experience in financial services in New Zealand, Hong Kong and

Japan. In their organization, they work on investor sales and relations for commercial property syndications.

Category 4 – Property experts and other related professionals

P25 – Economist at an economists’ consultancy firm

This interviewee is an economist with ten years’ experience as a leading economics consultant in New Zealand. They regularly write articles in the business media about New Zealand’s housing sector, housing affordability, and property finance. They are also a leading public speaker / commentator in the real estate industry. The interviewee has also written books on the New Zealand economy and housing sector. They have a banking background, having previously worked in several banks internationally.

P26 – Senior executive at one of the leading investment advisory firms

This interviewee is a senior executive at one of the leading investment advisory firms in New Zealand. They have a background in banking, investing, asset allocation, strategy and portfolio management. The interviewee has a regular presence in the New Zealand business media.

P27 – Director at a chartered accountants and business advisory firm

This interviewee is a director at a business advisory and chartered accountants’ firm. They oversee advisory services for the property sector focusing on investing strategy, financial management, structuring, asset management and taxation. The interviewee previously held the position of director at a PC platform in New Zealand.

P28 – Advisor at a financial advice and broking services firm

This interviewee is an advisor at a financial advice and broking services firm in New Zealand. They provide investment advice, research and analysis to investors. The interviewee has written about equity crowdfunding in New Zealand in the media.

P29 – Project manager at a construction projects management firm

This interviewee is a project manager at a construction projects management firm. They have a background in property development, and worked on numerous construction projects in New Zealand during the past ten years. The interviewee has previous work experience in PC in New Zealand.

P30 – Managing Director of a leading real estate agency in Auckland

This interviewee founded, and is managing director of a leading Auckland real estate agency. The interviewee's career in real estate spans 30 years: they worked at two of Auckland's most high profile real estate agencies, before founding their own agency 25 years ago. The interviewee also recently launched a company that matches people who want to purchase a property with other buyers/investors as a small group, and the company then manages the purchased properties on behalf of the buyers/investors.

P31 – Director: Urban innovation advisory firm

This interviewee is a director of an urban innovation advisory firm with ten years' experience in the industry. The firm provides consultancy services on integrated, people-centric city strategy, primarily to the government, providing advice on built environment projects. The interviewee has also worked with private developers, advising on housing development projects. The interviewee had engaged with groups interested in "co-housing" or "community

housing” development, whereby groups of like-minded New Zealanders purchase land and build their houses as a group.

In summary, profiles of interviewees presented above illustrate that the interviewees were all well-informed and experienced property professionals who hold senior positions in their organizations, and have decades’ worth of experience in property and property finance, as well as knowledge and experience about PC, and were therefore capable of answering this study’s research questions. Some of the interviewees had previous and/or current work experience in PC and property finance in USA, Australia, the UK, and other Europe. Thus, they were able to provide insights and perspectives from these overseas markets, thereby providing international perspectives to this study.

4.6 NVivo Software

I utilized NVivo Software for data analysis and management. The software helped me to create categories and themes for my topic; code data to their respective categories/themes, compare and contrast these, and analyse them. NVivo is a proven software that helps researchers to have rigorous, productive, and more efficient data analysis processes (Maher et al., 2018). Prior studies have shown that NVivo offers several benefits to researchers, namely, it facilitates easier data management, simplifies themes identification, and it is time saving (Dollah et al., 2017). However, learning the software can be time consuming for novice researchers unfamiliar with NVivo (Dollah et al., 2017).

Utilizing NVivo helped me to visually map out my coding structure and key coding categories; have a greater understanding of the dataset and the connections in the data, and made the coding

process easier. Overall, NVivo facilitated a dynamic, flexible, and fluid process of data analysis and coding because as I continued to work with the data in NVivo, my understanding and interpretation of the data improved, and this in turn helped me to refine the coding and themes accordingly.

4.7 Data analysis procedure

This section presents the approach and steps I took to analyse the interview data using NVivo Pro 12 software. I followed three steps, as follows.

4.7.1 Step 1: Initial reading of collected data

My first step was to read and re-read the interview transcripts several times to understand the data, and be able to interpret it and answer my research questions. Corbin and Strauss (2014) state that researchers must examine the qualitative data and understand its meaning. Thus, I read the transcribed interviews numerous times to become more familiar with the data, and find major themes emerging from the data, so that I would then be able to code it. Next, I uploaded the anonymised interview transcripts as text files into the NVivo software, and proceeded to step two.

4.7.2 Step 2: Coding framework, developing the category list

My goal in this step was to develop a coding framework, a list of categories/themes for my data analysis. After I uploaded the transcripts in NVivo, I read the transcripts again several times, but this time I read the transcripts in NVivo. During this step, I gave particular attention to re-engaging with my thesis' research questions, literature review, and initial conceptual framework, to re-familiarize myself with key concepts that are fundamental to my thesis. While developing the coding framework, I sought to ensure that the labels for all the codes will accurately represent the content and essence of my thesis' research question, objectives, and initial conceptual framework.

The key concepts of my research topic, as per my thesis topic, are challenges and limitations of PC platforms, contextual factors impacting PC in New Zealand, and the response strategies of the industry. Drawing from this, I developed the key top-level categories/codes in my coding framework. These became my nodes in NVivo; they became the top-level 'containers' into which relevant data was going to be gathered and organized.

Deductive and inductive data analysis

I used a deductive along with inductive approach to conduct data analysis by basing the data analysis on existing theory and literature as recommended by Bryman and Bell (2011) and Bell et al. (2022). In my thesis, the main theoretical lens used is disruptive innovations theory (e.g., Christensen, 1997), supported by literature on organizational legitimacy and reputation building (e.g., Petkova et al., 2008), and legitimacy building in crowdfunding (e.g., Frydrych et al., 2014; Kwak et al., 2019). This literature informed my data analysis.

Using NVivo, relevant texts of data was coded under their respective categories. Table 7 illustrates how I used my thesis' concepts to develop the first list of categories. As illustrated in the table, a review of my thesis research questions, and interview questions enabled me to identify five main categories for my data (as listed in Table 7 in the last column on the right).


The five initial categories are as follows:

1. Definitions of PC
2. Current state of PC
3. Challenges and limitations of PC platforms
4. Contextual factors impacting PC in New Zealand
5. Response strategies for PC

This process of creating a list categories helped me to focus on finding and categorising important data that directly answer my research questions. I created nodes in NVivo named as the identified themes listed above and I applied these codes throughout the interview data in NVivo.

Table 7

Category list for data analysis

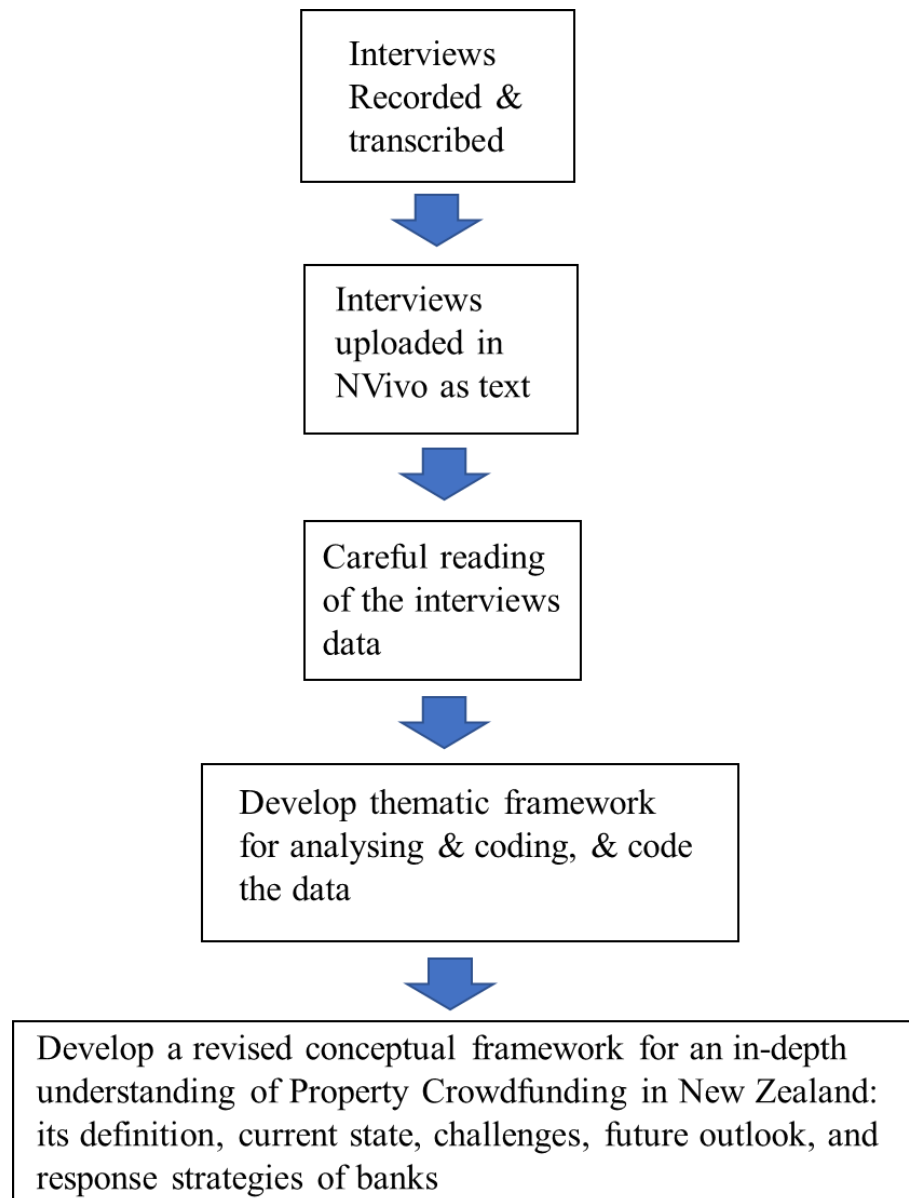
Thesis Concepts Research Questions, Literature Review, Conceptual Framework, Interview questions 			
Relevant research question	Sample interview questions	Rationale for the category	Category list for data analysis
RQ1: <i>What is property crowdfunding?</i>	<ul style="list-style-type: none"> ▪ How would you define property crowdfunding? 	To ensure that a greater understanding of PC is achieved.	1. Definition
RQ2: <i>What is the current state of PC in New Zealand?</i>	<ul style="list-style-type: none"> ▪ How would you describe the current state of PC in New Zealand? 	To clarify the current state of PC in New Zealand.	2. Current state
RQ3: <i>What are the current limitations of property crowdfunding in New Zealand?</i>	<ul style="list-style-type: none"> ▪ What challenges do you think PC platforms are facing in growing or expanding their platforms? ▪ What are the risks or dangers of using PC in the New Zealand environment? 	To explore all the challenges PC is facing in New Zealand.	3. Characteristics, Weaknesses, or Limitations of PC platforms
RQ4: <i>What contextual factors have influenced the development of property crowdfunding in New Zealand?</i>	<ul style="list-style-type: none"> ▪ What factors are influencing the growth (or lack thereof) of PC in New Zealand? 	To examine factors unique to New Zealand, which have shaped the development on PC in New Zealand.	4. Contextual factors
RQ5: <i>How may the real estate project finance industry strategically respond to property crowdfunding?</i>	<ul style="list-style-type: none"> ▪ Does PC present a potential threat to banks, and how / why? ▪ How can banks strategically respond to PC? ▪ Tell me your thoughts about best ways to integrate PC with banks' existing products and services in NZ. 	To understand how banks can strategically respond to platforms.	5. Response strategies

4.7.3 Step 3: Thematic analysis of data

During this step, I thematically analysed the interview transcripts data using the codes developed in the previous steps. I coded the data from transcripts by allocating it to their relevant categories or nodes in NVivo. My goal in this analysis was to ‘open up’ the interview texts; interpret them, and reveal the interviewees’ ideas, thoughts, and meanings, using theory and prior literature. In the NVivo 12 software, I ran queries that produced word, coding, project map, and matrix reports, diagrams, and illustrations. This helped me to gain a high-level overview and understanding of the data themes, identify key patterns in the data, check the correctness of the coding, and making necessary additions to the codes and data coding. Overall, this process was non-linear and iterative: throughout the process of analysing the data, I continuously went back to the key concepts of my research – the research questions, reviewed literature, and the initial conceptual framework – to remain attuned to concepts that are central and important to my research. Figure 24 illustrates the complete data collection and analysis process that I conducted.

Figure 24

Data analysis process



Based on Bryman & Bell (2011), Creswell (2007), Creswell & Creswell (2017)

4.8 Reflective account of my experience using NVivo 12 Pro software

I found NVivo to be a very helpful tool for ‘splicing’ data and structure the nodes in several different ways, which further helped to advance my understanding of the data. I used NVivo’s mind maps and conceptual maps to ‘brainstorm’ my research topic and themes, and enhance my understanding of the data.

The software helped me to conceptualise possibilities and options for organizing my data and my nodes. NVivo also helped me to examine associations and relationships of particular themes in the data. Using NVivo helped me to compare and contrast the numerous categories/themes I developed, and have a high-level picture of the relationships between these themes. In addition to being a data analysis tool, I also found NVivo to be a helpful data-management tool.

Although NVivo has been very useful and helpful in my data analysis, it had a few limitations. NVivo’s reductive tendencies of reducing complex issues to simple elements, and subsequent over-reliance on codes to develop theory means that, as a researcher, I had to make sure that I remain diligent in paying close attention to my research participants’ insights and perspectives and their centrality to my research. For instance, while some nodes were ‘busier’ than others and attracted a lot of data, other nodes which had less data were still very central to my research, and still had very valuable perspectives important to my research. Using NVivo to code my data also taught me that the software’s role is to simply help manage the data analysis process, and that as a researcher, I cannot rely on it to do my thinking for me.

Further, I used the functions in NVivo that were more suitable and valuable to my own data analysis. For example, I did not make substantial continued use some functions in NVivo such as ‘word frequency counts’ and ‘word clouds’. Nevertheless, these functions were very helpful in the early stages of my data analysis in NVivo because they helped me to ‘visualize’ my data, which enhanced my interpretation of it.

The following section describes how the collected data was analysed.

4.9 Data analysis approach: Textual analysis

Qualitative textual analysis (Fairclough, 2003; McKee, 2001; 2003) was used to analyse the collected interviews data and documents data. Textual analysis is a technique whereby a researcher forms interpretations that emerge from texts (McKee, 2003). Textual analysis is an interpretative approach that enables a researcher to analyse all aspects of text to reveal underlying meanings, or formulate meaning (Hall, 1993; McKee, 2001; 2003). Textual analysis also allows a researcher to acquire a deeper, instead of surface-level, understanding of text through uncovering and exposing nuanced meanings embedded in the text (Berger, 1998; Schroder, 2002; Zhou & Sloan, 2011). I employed the textual analysis approach to scrutinize and expose the underlying, latent, internal meaning of texts; and interpret the text by drawing from the extant literature and themes in the field, and from the expertise and experience of research participants.

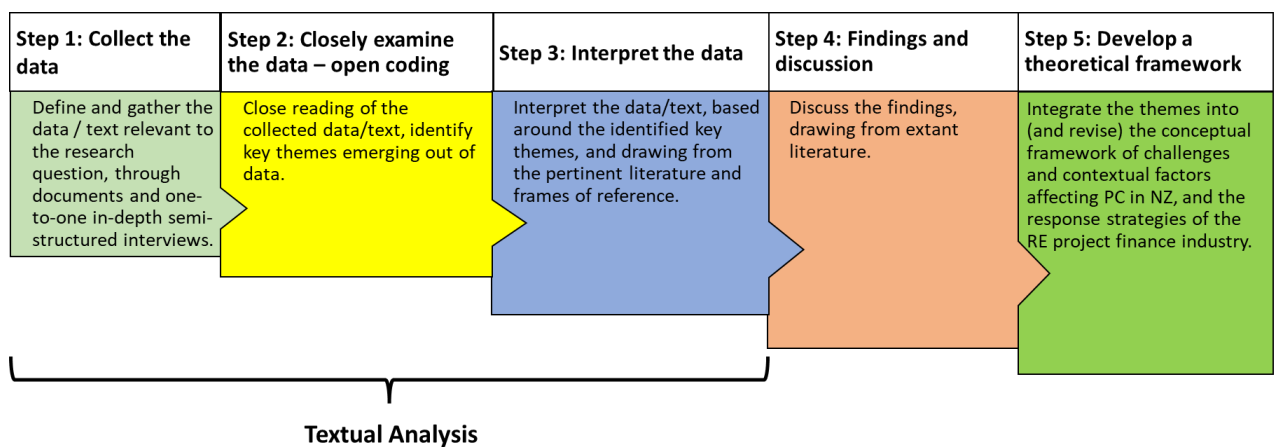
I used textual analysis as a data analysis tool to conduct the following:

- Draw upon extant literature to interpret texts and bring meaning to texts about a phenomenon.
- Reveal meanings in texts by interpreting and evaluating how these meanings act as examples of larger concepts, themes, or theorizations that exist in a field.
- Draw upon research participants’ knowledge about the topic from the interview transcripts, and also draw upon documents which I collected and read during the research, to interpret the text.

Using the textual analysis technique, I engaged in “deconstruction” (Hall, 1975) of the data or text, which means close reading and examination of it, so as to interpret it. Going beyond the surface meaning of the data, I sought to interpret the data to reveal underlying meanings and recurring patterns and themes in the text, as well as explore the perspectives, assumptions, and beliefs of the research participants. Figure 25 below illustrates the textual analysis steps I followed.

Figure 25

Textual and data analysis steps



4.10 Chapter conclusion

This chapter presented the research design and methodology of this study. It outlined the epistemology and ontology assumptions adopted; and the techniques, tools, and processes that were used to collate and analyse data pertaining to the research problem. Semi-structured interviews were utilized to collect data. These facilitated collection of rich, detailed data on the phenomenon under investigation, from which themes and theory will ‘emerge’. PC is an emerging topic with limited research, thus justifying the use of qualitative, semi-structured interviews which facilitated collecting comprehensive primary data. The research design and methodology facilitated the collection of robust, in-depth data on PC in New Zealand from 31 highly informed and experienced experts from the banking, property finance, property, and PC sectors. Interviews data was supplemented with extensive secondary data from a large volume of documents. Data was analysed using qualitative methods, and with the assistance of NVivo 12 Pro software.

The next chapter presents this study’s findings.

Chapter 5 Empirical findings: Analysis and interpretation of interview data

This chapter presents and interprets findings from interviews conducted in this study. As stated in Chapter 1, this study aims to create an in-depth and nuanced understanding of PC in New Zealand, specifically: how PC is defined; PC's current state, limitations of PC platforms, contextual factors impacting PC uptake and growth, and response strategies of incumbents in the real estate project finance industry towards PC. The analysis and interpretation of interview data is focused on the five sub-research questions developed for this study, reiterated below:

- 1. What is property crowdfunding?*
- 2. What is the current state of PC in New Zealand?*
- 3. What are the current limitations of property crowdfunding in New Zealand?*
- 4. What contextual factors have influenced the development of property crowdfunding in New Zealand?*
- 5. How may the real estate project finance industry strategically respond to property crowdfunding?*

5.1 Definition of property crowdfunding

As presented in Chapter 1, PC is a new innovation, particularly in the New Zealand context, and this necessitated defining and describing it in more detail. Although the FMA provides a legal definition of PC, as presented in Chapter 2, this study aimed to explore research participants' different ideas about what property crowdfunding is, and examine whether the legal definition differs from the views help by the participants. Accordingly, all the research participants were asked to define PC and explain what the concept of PC meant to them.

Numerous definitional themes emerged, and are presented in this section. Analysis of this first theme answered this study's first sub-research question:

Sub-Research Question 1: What is property crowdfunding?

The key common themes that emerged from definitions of PC offered by the interviewees are presented in Table 8 and illustrated in Figure 26.

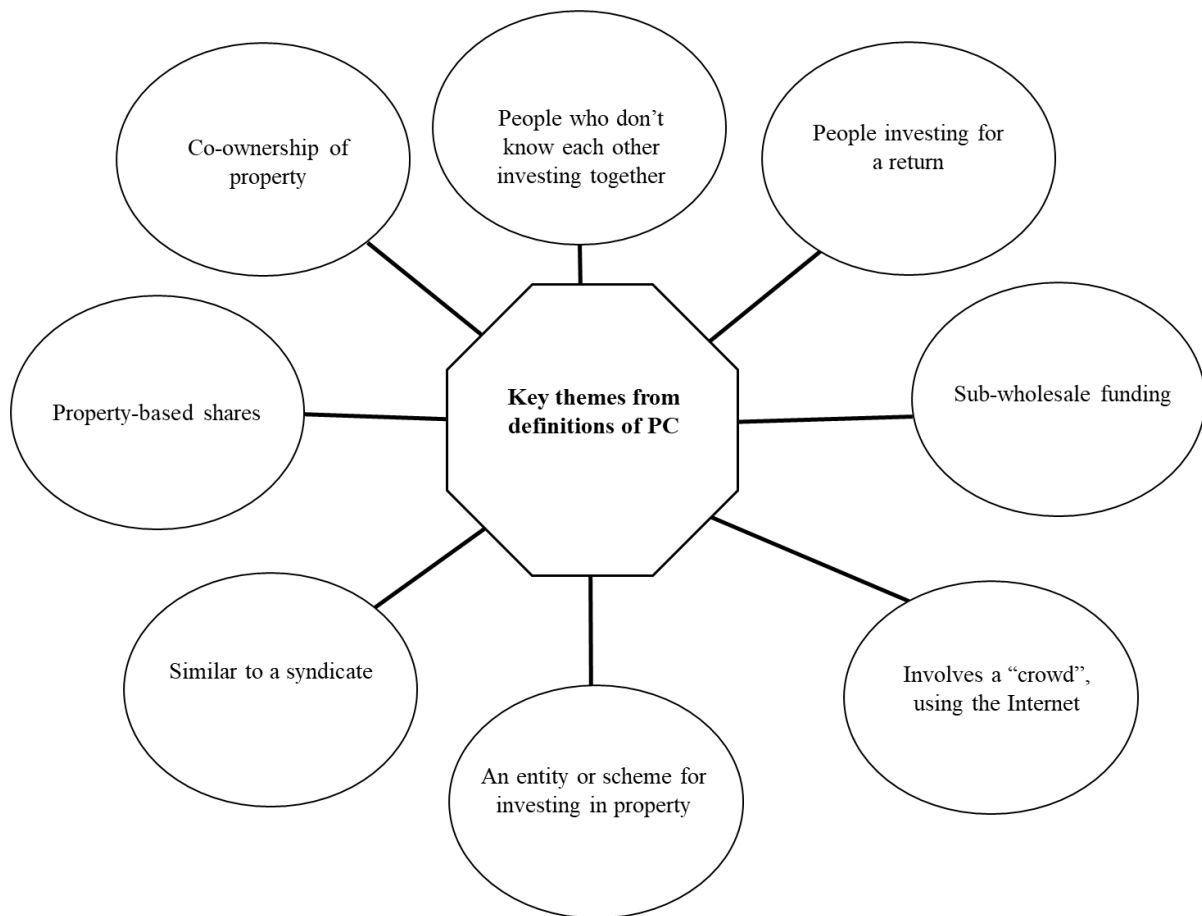
Table 8

Definitions of PC

Definitions of PC
<ul style="list-style-type: none">▪ PC involves many people – the “crowd”▪ PC involves collecting money via the internet▪ PC enables ordinary people who may not know each other to invest in property together▪ PC involves raising small amounts of money from people who are investing for a return▪ PC is sub-wholesale funding for real estate▪ PC enables ordinary New Zealanders to invest in property▪ PC involves an entity or scheme for investing in property▪ PC is similar to a syndicate▪ PC is buying property-based shares▪ PC involves co-ownership of property

Figure 26

Key themes from definitions of PC



The key themes that emerged from definitions of PC offered by interviewees are presented as follows.

PC involves many people – the “crowd”

The consensus among interviewees was that PC involves many people, thus highlighting the “crowd” aspect of property crowdfunding. An investment banking analyst described PC as follows:

“I would say property crowdfunding is where you have a large number of people putting small amounts of money into the purchase of a property or a group of properties.” (P7)

The above interviewee's comment indicates that PC is a process whereby many people contribute small amounts of money towards buying one or more properties. A bank lending executive who previously worked as chief lending officer at a prominent crowdfunding platform in New Zealand defined PC as follows:

“Many people contributing to and collectively owning property. And that's both land and buildings.” (P3)

The above executive's statement suggests that PC involves a lot of people each pitching in some money and collectively owning real estate. This executive's definition is also reflective of their background: while working at the equity crowdfunding platform, he helped project owners to post their projects on the platform, and mobilize a “crowd” of supporters (i.e., investors) interested in jointly investing in real estate.

Another interviewee, a senior executive at a prominent European PC platform, described PC in the following way:

“I would define property crowdfunding as a type of financing whereby a large number of people can participate in some property project; it also makes it possible to collect money through the Internet mostly. ... And there are three main types of actors in property crowdfunding. On one side there are investors, on another side there are people who collect money – borrowers or project sponsors or owners. And also the platform itself who provides this marketplace.” (P12)

Interviewee P12's definition highlights that PC is a tool that enables many people to finance a real estate project together, primarily through the Internet. The definition offered by P12 also demonstrates their knowledge about the mechanisms of platforms and how they work, the actors involved, and the platform's two-sided market consisting of investors and borrowers.

Another interviewee, a CEO of a crowdfunding platform that offers projects and equity crowdfunding, expressed:

“Property crowdfunding is a niche of crowdfunding. ... Crowdfunding is the idea that you go to your crowd for funding, and you offer something in return. What you offer depends on your structure. ... Property crowdfunding is just one way in which someone could fund their project, via the crowd.” (P10)

The above CEO’s definition indicates that PC, which is a segment of the broader crowdfunding industry, enables project owners to raise funding from the crowds. The definition also suggests that project owners must have ‘their’ crowds whom they can mobilize to support their project, an issue that will be explored later in Section 5.3.5.

PC enables ordinary people who may not know each other to invest in property

The general feedback from the interviewees was that PC is a tool that enables ordinary people, who may not know each other, to purchase/invest in property together. This perspective was best summarised by a managing director of a PC platform who explained:

“In New Zealand, I think, property crowdfunding is the use of the crowdfunding concept to allow all people to participate in property purchasing or investment. So, as compared to the traditional model where normally one person, or probably a couple of people... or more than one person who know each other, purchase or invest in a property together, now with the property crowdfunding platforms, crowdfunding allows people who never know each other, to purchase or invest in property together, using a pre-agreed agreement.” (P11)

The above-presented managing director’s comment suggests that PC enables all people to get involved in property investing since they can use an agreement to contribute small amounts of

money and purchase/invest in property together, via a PC platform. PC's low minimum investment means that anyone can get involved in property investments. Similarly, another interviewee, a senior executive at a major bank in New Zealand, emphasized the anonymity aspect of PC, stating:

“The crowd is anonymous – there is a lot of parents that help their children own property, get on to the property ladder – but that’s not crowdfunding. Crowdfunding is raising money from people you don’t know.” (P1)

The above remark by a banking executive suggests that, through PC platforms, property project owners/developers can raise finance for their projects from people they do not know. This interviewee's definition also reflects their background as a bank executive because they hint on the concept of “Bank of mum and dad” which is a prominent feature of the housing sector in New Zealand whereby, due to unaffordable housing, parents provide financial assistance to their children so that they can get mortgages from banks.

While interviewees such as those quoted above highlighted the ‘people you don’t know’ aspect of PC, a few argued that the very concept of strangers, with potentially misaligned or incompatible goals or life circumstances, putting in their contributions to invest in real estate together, is one of the significant risks or major pitfalls of the property crowdfunding model, or any group-based property investing or shared property ownership. For example, a property investor and developer argued that, instead of PC, it would be better if two people who know each other, and in similar situations or life circumstances, purchase a home together and co-own it. The interviewee expressed:

“Probably if anything that’s close to crowdfunding, I’d rather get two people or two students with about \$25,000 each and just go buy a house together. They should be

known to each other. They can't be just strangers, because the personalities may not suit. Also, when you're in partnership, buying with someone, you need to have similar goals. For instance, you're a student. You having a goal to purchase a house with someone who's having a baby very shortly, it's chalk and cheese. One is going to want their money out very soon, and the other may not." (P18)

Interviewee P18's comment presented above points out two important themes about PC in New Zealand, namely the problem of exit strategies in PC, which is examined in Section 5.3.3, and the mentality of home ownership and its impact on how PC is perceived, which is explored in Section 5.4.2.

Raising small amounts of money from people who are investing for a return

Interview transcripts indicated that PC is a tool that facilitates raising money from people who invest in real estate for a return. For instance, a projects manager in a construction projects management firm described PC as follows:

"It's when an average person can invest into a particular project that they can be a part of, for a return." (P29)

Similarly, in the words of a business advisor specializing in financial structuring and investing strategy:

"I would define property crowdfunding as the obtaining of small amounts of money from people, investors, who are interested in obtaining an interest in property." (P27)

The definitions by P29 and P27 presented above suggest that PC is a potential investment tool; people can invest in property and earn returns, via PC platforms. Further, while only high income earners may have been able to invest in property projects, now, an average person can do so, via PC platforms.

The interviewees also believed that PC allows people with savings to lend to property developers and earn a return on their savings. For example, a senior executive at an investment advisory firm described PC as follows:

“Property crowdfunding is for those who have excess savings, looking to earn a return on that savings, being put in touch with borrowers or property developers who for whatever reason, can’t or don’t want to go through the usual funding channels, which would be the banks I suppose. So my perception would be that property crowdfunding is a slightly higher risk sort of space certainly when compared to traditional ways of investing.” (P26)

The above illustrative quote suggests that instead of the traditional way of earning returns from savings in the bank, people with savings can now lend to developers and earn returns through PC, though this is likely to be risky. This also suggests that PC platforms can be an alternative, non-bank financing tool where developers can raise equity and/or debt for their projects. Interviewee P26’s definition hints at the issue of competition and/or complementarity between PC platforms and traditional financiers of real estate such as banks, which is explored later in Section 5.5.2.

PC is sub-wholesale funding

Interviewees characterized PC as sub-wholesale financing for real estate. For instance, a director at a non-bank mortgage lending firm described PC as follows:

“I would say property crowdfunding is investment for sub-wholesale-funding individuals. So, what it’s trying to do is create a consumer participation within large or larger scale developments. That’s how I would describe it.” (P8)

The above illustrative excerpt from interviewee P8 highlights the fact that, unlike raising funding from larger, institutional investors, PC involves raising small amounts of money from

ordinary people, i.e., ‘retail’ investors, thereby enabling them to participate in large real estate projects which they would not been able to without PC. This interviewee’s characterization of PC was reflective of their background as a leading non-bank mortgage lender in New Zealand.

PC involves co-ownership of property

The interview transcripts also revealed that some interviewees believed that PC is about home co-ownership. For example, a CEO of a PC platform described PC as follows:

“Property crowdfunding for me is essentially shared ownership of, in our case, residential property. And I say the word shared ownership, because if I talk about crowdfunding properties, in most cases New Zealanders don’t understand the concept of crowdfunding for property. They understand crowdfunding for charitable causes, some understand crowdfunding for business, but not for properties. So, the concept is a very strange and very new for them. So, I always come up first with the explanation that we are enabling shared ownership of residential property and that’s the first key part that gets people to buy in. Then I’ll explain that we’re using the crowdfunding principle, the crowdfunding license that allows us to share ownership. So we’re using the principles of crowdfunding to allow lots of people to contribute to the purchase of a property.” (P9)

The above CEO’s statement indicates that PC facilitates shared ownership of residential property. The comment showcases the lack of knowledge and understanding of PC in New Zealand, as presented later in Section 5.4.4. The comment also highlights the significance of home ownership in the New Zealand society, an issue examined later in Section 5.4.2. The idea that PC is or should be about co-ownership of property was also raised by another interviewee, a co-founder and manager of a home co-ownership platform that connects people to co-purchase a home together, who explained:

“Because we researched, we looked into the Crowdfunding Act aspect and, we realized that, when it comes to residential property investment, we’re really lucky in New

Zealand specifically based on the lending rules in terms of ability to own residential property. It's like 10% or 15% or 20% deposit. So for someone to be able to get into the market...maybe they don't have that 15% by themselves, but maybe with two other people, each putting in 5% of the deposit, it becomes somewhat achievable. Which is where we got to with our company which is more of just bringing people together to co-own the property.” (P15)

The above platform manager explained that after examining crowdfunding legislation in New Zealand, and taking into consideration the mortgage lending rules, their company (which operates as a private company without the FMA crowdfunding licence), decided that crowdfunding is not necessary or ideal because a few people can simply contribute towards purchasing their home or investment property together, and co-own the property. This manager believed that highly fractionalized PC is not ideal in New Zealand, as presented under the heading ‘PC is similar to a syndicate’ in the subsequent pages.

PC involves an entity or scheme for investing in property

Some interviewees believed that PC involves an entity or scheme into which people put their contributions or investments, and this entity or scheme then owns or holds the property invested in. For example, a managing director of a private capital firm, who is also a founder and director of a crowdfunding platform in New Zealand, described PC as follows:

“I would define crowdfunding as funding an entity that either owns or develops property.” (P2)

P2’s definition seemed to focus on the mechanisms of PC, namely how a separate legal entity or company, commonly known as a special purpose vehicle (SPV) is created for the purposes of acquiring and owning assets. Similarly, another interviewee described PC as follows:

“Well, my understanding of it is that it is whereby the general public invest money into a scheme that provides funding for a project.” (P5)

The above definitions by P2 and P5 highlight the issues of exit strategies, and protection of the crowdfunding public’s investments in the event failure of the project, or the PC platform itself, and these issues are examined later in Section 5.3.3.

PC is buying property-based shares

Some interviewees were of the view that PC is buying property-based shares. For instance, this perspective was well captured by a property investor and developer who stated:

“They’re really just buying shares, but it’s a property based one.” (P18)

Interviewee P18’s comment highlights the fact that PC is not perceived to be synonymous with property investing per se, but with buying shares in a property or a company that owns the property. For the reason that PC is perceived as akin to buying shares, the ability to trade these shares, and having a trading exchange market or a secondary market for the shares becomes crucial, as explored later in Section 5.3.3. The issue of acceptance of PC (or lack thereof) as an investment tool in New Zealand is explored under Section 5.4.2.

PC is similar to a syndicate

Another theme that emerged from the interviewees’ definitions of PC is that it is similar to a syndicate. For instance, a founder/CEO of a fractional property investing platform described PC as follows:

“Basically property crowdfunding is an internet-based syndication platform that enables people to syndicate together to acquire properties.... So property crowdfunding is very much a financial product.” (P13)

Likewise, a founder and director of a home shared ownership platform described PC this way:

“Well, property crowdfunding, I would see it as a syndicated investing or syndicated investment. And that's pretty big, because there are a lot of different companies that do that, like Oyster and Augusta and others.” (P16)

Similarly, another interviewee, a property investor, equated PC to a syndicate, stating:

“I would probably define it as a group of people funding the property, probably like a syndicate.” (P21)

Another interviewee, a co-founder and manager of a home co-ownership or co-investing platform that connects a few people to purchase property together, when asked to describe what PC meant to him, the interviewee expressed:

“Our model is a little bit different. We're not crowdfunders. But I believe in a smaller crowdfunding. So I believe more in using the community to come together to buy a property, but probably not as fractional as likes of The Property Crowd and some other people would think. I think there need to be not as greater as many people, I think it should be more of a syndication kind of a feel, that's my view on that.” (P15)

Interviewee P15 believed in “smaller crowdfunding” that is similar to a syndicate, and was opposed to highly fractionalized PC that involves a lot of people.

The above definitions offered by P13, P16, P21, and P15 demonstrate that PC is considered to be similar to a syndicate. While PC and syndicates are similar in the sense that they involve the grouping of people together to invest in real estate, they are different, for example, they have significantly different minimum investments, namely \$100 for PC and \$50,000 for property syndicates in New Zealand.

To sum up, research participants had different views about what PC is; numerous definitional themes emerged from the definitions offered by the interviewees. PC involves a substantial number of individuals – the “crowd” – whereby each person contributes a small amount of money and pooling funds to purchase or invest in real estate, resulting in collective ownership of property. PC enables ordinary New Zealanders to invest in property. PC involves an entity or scheme for investing in property. PC is buying property-based shares. PC is similar to a property syndicate, and it is internet-based syndication of real estate.

5.2 Current state of property crowdfunding

The second theme that emerged from the data relates to the current state of PC in New Zealand. Analysis of this second theme addressed the second sub-research question of this study:

Sub-Research Question 2: What is the current state of PC in New Zealand?

The key themes that emerged from descriptions of the current state of PC in New Zealand offered by interviewees are presented in Table 9 and illustrated in Figure 27.

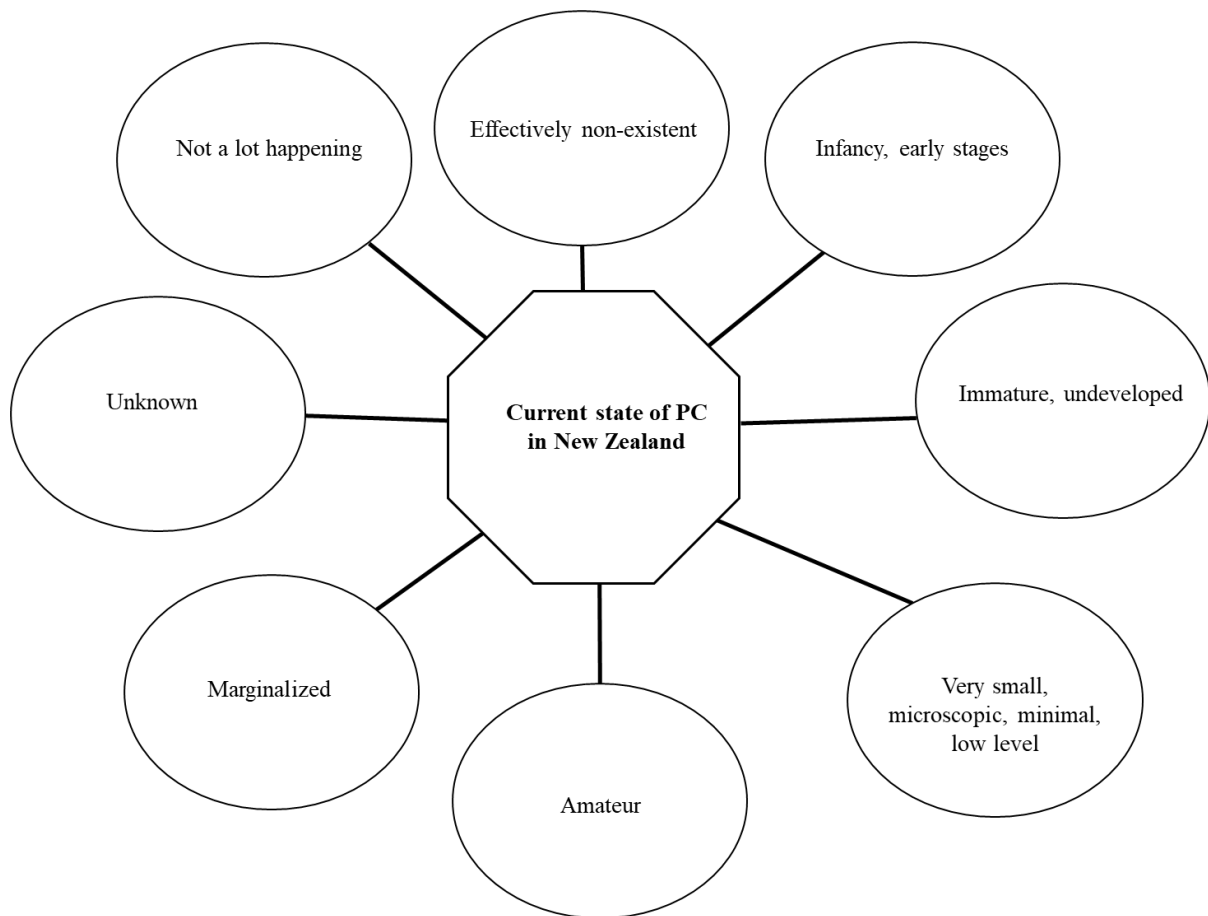
Table 9

Current state of PC

Current state of PC
<ul style="list-style-type: none"> ▪ PC in NZ is in its infancy ▪ PC in NZ is very small and nascent ▪ PC in NZ is effectively non-existent ▪ PC in NZ is unknown ▪ PC in NZ is marginalized ▪ PC in NZ is amateur ▪ There is not a lot happening in the PC sector in NZ

Figure 27

Key themes from descriptions of the current state of PC in New Zealand



Research participants were asked to explain the current state of PC in New Zealand, and the most common themes that appeared in interviewees' descriptions are as follows.

PC in New Zealand is in its infancy

The consensus among the research participants was that PC in New Zealand is in its infancy and immature. For instance, a CEO of a PC platform characterized the current state of PC in New Zealand in the following way:

“It’s infantile. At the very, very early stages. So most people in New Zealand haven't heard of property crowdfunding. They're completely confused by it. They don't understand it. And it makes it very difficult for me to start a conversation even to the point that when they ask me, what do I do for a living? What is your job? It's very hard for me to explain, because if I start by saying that I run a property crowdfunding platform, that stops the conversation inevitably. So it's so new that people don't know what it is.” (P9)

The above CEO’s comment suggests that PC is a very young sector in New Zealand; many people are unaware of and confused by PC. This comment also highlights one of the key challenges facing PC platforms, namely lack of knowledge about PC, as described later in Section 5.4.4. Another interviewee, a bank lending executive who also previously worked as a lending executive at a leading crowdfunding platform in New Zealand commented:

“It’s in its infancy. Very immature.” (P3)

Similarly, a banking specialist who manages a consultancy firm specialising in property finance broking stated:

“I would say it’s in infancy.” (P5)

A leading economist who is also a prominent speaker, commentator and author on property and housing in New Zealand, expressed:

“It’s in its infancy” (P25)

Another interviewee, a managing director of another PC platform commented:

“The concept itself [of crowdfunding] is not really new, but the property crowdfunding market is still young.” (P11)

The above remarks by P9, P3, P5, P25, and P11 suggest that PC in New Zealand is still in the early phases of development. This infancy state means that there are numerous limitations and challenges which PC platforms are confronting, as explored in the subsequent Section 5.3.

PC in New Zealand is very small and nascent

Another related theme that emerged was that PC is small and undeveloped. For instance, a senior executive at one of the ‘big four’ banks described the current state of PC in New Zealand as follows:

“It’s Microscopic. It’s very small.” (P1)

Another interviewee, a leading investment advisor in New Zealand, stated:

“Property crowdfunding in New Zealand is pretty small. ... It is at very early stage and many people in the broader capital markets, in the financial markets, are unaware of it.” (P26)

The above comments by interviewees P1 and P26 indicate that PC in New Zealand is very small. The issues of the (potential) market size of PC in New Zealand, and lack of awareness about PC, are examined later in Section 5.4.4. Along similar lines, yet another interviewee, a projects manager in a construction projects management firm, described the current state of PC in New Zealand as follows:

“I think it’s very minimal. It’s quite marginalized at the moment.” (P29)

The above manager’s view illustrates that PC in New Zealand is currently insignificant and peripheral. This viewpoint alludes to the current limitations of PC platforms, and contextual

factors hampering the growth of PC in New Zealand, which are examined in Sections 5.3 and 5.4, respectively.

There is not a lot happening in the PC sector in New Zealand

Research participants believed that there is very little happening in the PC sector. For example, a managing director of a private equity firm who is also a founder and director of one of the equity and PC platforms described the state of PC in New Zealand as follows:

“Not a lot happening.” (P2)

Interviewee P2 explained that their efforts to get developers to use their platform have so far been unsuccessful. When asked whether their platform had facilitated any property crowdfunding project, the interviewee explained that they had attempted to run two property crowdfunding campaigns and structure the funding for the projects on their platform, but the developers decided to discontinue and sourced funding from other sources. As the interviewee expressed:

“Yes, we looked at a couple, tried to get a couple of property crowdfunding projects going on the platform, ... but they just haven't kind of gone out of the blocks. We've looked at a few property crowdfunding ideas and we went ahead and tried to structure them up and come up with the strategies for them, but the developers left and done something else.” (P2)

This founder/directors' statement showcases developers' unwillingness to use PC platforms as a financing tool for their projects, an issue that will be examined later in Section 5.4.1. Yet another interviewee, a property investor who has been investing in construction projects and in completed residential properties in New Zealand for the past twenty years, expressed that although equity crowdfunding (for businesses) is active, PC is not. They stated:

“So if you look at the equity space in New Zealand, there's a lot of crowdfunding happening in that market. But there's not a lot of crowdfunding happening in the property market at the moment from where I can see.” (P 23)

The interviewee added that although PC can have a role to play in New Zealand, there is currently no activity in that area, unlike equity crowdfunding for businesses, which is growing.

They expressed:

“I think there's probably a place for property crowdfunding in New Zealand, but I don't see too many people doing it at the moment. So if you think about crowdfunding around equity investment, there's going to be quite a bit going on in that space, but there's not a lot happening in the property crowdfunding space.” (P 23)

Interviewee P23's remarks indicate that while equity crowdfunding for businesses is highly active and growing in New Zealand, PC is not. Issues that have contributed to this state of affairs are scrutinized in the ensuing sections. Along similar lines, another interviewee, a director at a property financing firm, expressed that PC in New Zealand is undeveloped, with limited future prospects for growth. The interviewee observed:

“I think property crowdfunding is pretty undeveloped. It's probably the fair description of it. And I'm not sure I can see that changing in the near future. Unless you're dealing with more trading businesses or business-to-customers type of business, crowdfunding things could work a little better, but if you're dealing with property funding, just the depth of boxes to tick, and the things you've got to put in place, as required by the regulator, then that just becomes a far more complex process. The other side of the property funding or crowdfunding is that, if you get into a reasonable scale development, which we've been involved with, it's not actually hard to find wholesale investment. You can find people that are happy to chuck in \$250,000; \$500,000; \$750,000 plus. So they'll come along and say look, we're looking for \$5 million for a development project and give an Information Memorandum of the project, and those guys will go, “That's fine,” and so it's a lot easier even though there is a bit of work in preparing the IM, but that amount of work is not that much harder than actually putting

together a crowdfunding IM. So, you can actually source that money relatively easily from wholesale investors for the development project.” (P8)

The above director’s remarks demonstrate that unlike equity crowdfunding for businesses, crowdfunding for property has many regulatory requirements which makes it complex. Further, raising property development finance from wholesale funders is relatively easy compared to PC. This comment alludes to developers’ hesitation to use PC platforms, as explored in Section 5.4.1. This comment also highlights the fact that PC platforms in New Zealand face some regulatory challenges, as examined in Section 5.4.3.

PC is virtually non-existent in New Zealand

Some interviewees described the current state of PC in New Zealand as effectively non-existent. For example, an investment banking analyst from an investment advisory firm, who previously held the position of executive director at one of the PC platforms, described the current state of PC as follows:

“I think it’s non-existent effectively.” (P7)

Matching the viewpoint presented above, other interviewees described the current state of PC as “low level” and “amateur”. For instance, a business advisor to the property sector specializing in financial structuring and investing strategy described the current state of PC as follows:

“It’s very low level. It’s amateur to non-existent.” (P 27)

Similarly, another interviewee, a director of a commercial property syndication firm, stated:

“To my knowledge, there isn’t much property crowdfunding at all, if any.” (P17)

The above remarks by P7, P27, and P17 demonstrate that PC platforms in New Zealand have not yet progressed since obtaining their FMA crowdfunding licences. The New Zealand government agency, the FMA, spent significant financial resources and time in amending the FMC Act 2013 to introduce equity crowdfunding and property crowdfunding legislation in New Zealand. However, the FMA-licence issued PC platforms are struggling to gain traction. Various factors which have contributed to this situation in the PC sector will be presented in Sections 5.3 and 5.4.

In summary, the consensus among the interviewees was that PC in New Zealand is in its infancy; it is very small, nascent, in its early stages, immature, undeveloped, and marginalized. PC in New Zealand is considered amateur to non-existent. Although there are several platforms in New Zealand with the FMA-issued crowdfunding licences, interviewees observed that there was very little activity on the platforms, and not a lot was happening on them. As a background note, when the interviews were conducted, platform founders who were interviewed indicated that they were actively looking into how they can further promote their platforms. Before the Covid-19 outbreak, some of the platform founders were actively making presentations about their platforms at events and conferences, as was explained previously in Chapter 4. In order to understand what “very small” or “infancy” means, in the following Chapter 6, the current potential demand market size of PC in New Zealand is discussed and compared to market sizes of PC in successful PC markets such as USA, UK, and Europe.

5.3 Current limitations of property crowdfunding platforms

The third theme that came out of the interviews data is about the current limitations/limited functionalities of property crowdfunding platforms in New Zealand. Analysis of this third theme addressed the third sub-research question of this study:

Sub-Research Question 3: What are the current limitations of property crowdfunding platforms in New Zealand?

Analysis of interview transcripts revealed that PC platforms in New Zealand face numerous limitations and challenges which are hindering their growth, categorised into five themes, namely:

1. Lack of transparency
2. Lack of due diligence
3. Lack of exit strategies and secondary markets
4. Lack of scale and diverse properties
5. Lack of ‘crowds’ on the platforms

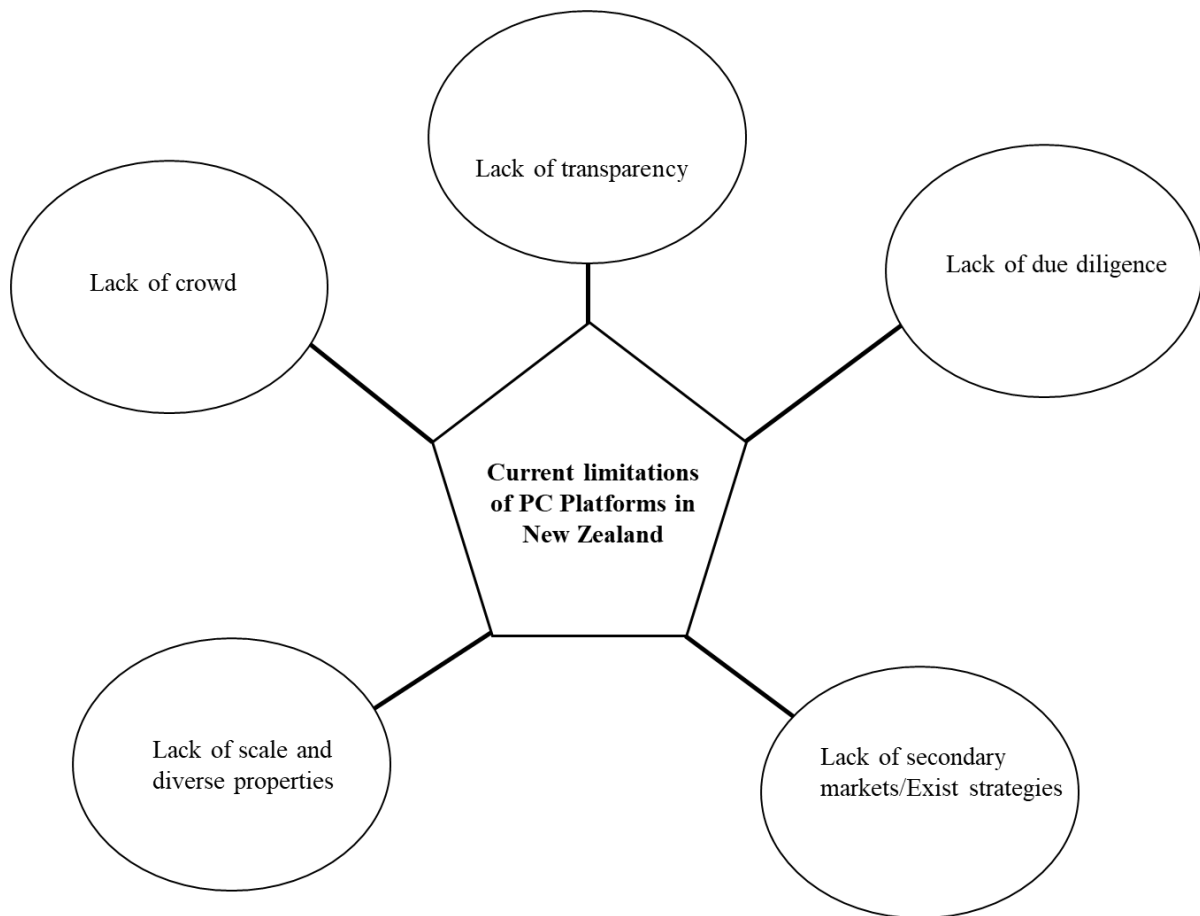
Key themes that came out of the interviewees’ descriptions of the current limitations of PC platforms in New Zealand are outlined in Table 10 and illustrated in Figure 28.

Table 10*Limitations of PC platforms: Sub-themes and key issues*

Sub-themes	Key issues
Lack of transparency	<ul style="list-style-type: none"> ▪ Lack of transparency increases risks for investors ▪ Full information disclosure not legally required ▪ Prospective investors lack detailed information to make sound investment decisions ▪ Lack of transparency impacts trustworthiness ▪ Lack of transparency impacts due diligence analysis ▪ Transparency impacts reputation building
Lack of due diligence	<ul style="list-style-type: none"> ▪ PC platforms post projects without conducting in-depth due diligence analysis ▪ PC platforms lack the knowledge and expertise required in complex real estate transactions/projects ▪ PC platforms do not build strong face to face relationships with project sponsors to ensure their reliability and trustworthiness ▪ PC platform founders and managers concerned about appraising projects before accepting them on their websites ▪ Detailed information and all necessary documentation must be posted to allow prospective investors to conduct their due diligence before investing
Lack of secondary markets/exit strategies	<ul style="list-style-type: none"> ▪ PC platforms currently lack clear exit strategies and secondary markets for investors when they want to exit or realize their investments ▪ Proportional ownership of property is not yet developed or accepted in NZ, thereby impacting trading in multi-owned properties ▪ Platform founders and managers concerned about exit strategies for their platforms ▪ Lack of a trading market for the units/shares from crowdfunding ▪ Timing the exiting to align with the rise and fall of the property market is challenging
Lack of scale and diverse properties	<ul style="list-style-type: none"> ▪ PC platforms currently lack scale required to make them successful ▪ PC platforms lack a wide range of projects/properties for diversified investments ▪ Due to lack of scale, PC platforms are not credible funders to developers ▪ PC platforms have not developed their two-sided markets
Lack of crowd	<ul style="list-style-type: none"> ▪ PC platforms lack crowds to invest in projects ▪ Developers in NZ struggle to attract the crowd of investors to invest in their projects ▪ PC platforms have not built ‘communities’ of investors/financiers (the crowd) and borrowers/developers (the project sponsors) on their platforms.

Figure 28

Limitations of PC platforms in New Zealand



The limitations of PC platforms in New Zealand are presented in the following sections.

5.3.1 Lack of transparency

PC platforms are not legally required to provide highly detailed information, causing lack of transparency and full disclosures, which increase risks for investors

A common viewpoint from the interviewees was that PC platforms in New Zealand lack transparency because they do not provide full information on projects seeking funding on the platforms, thereby making them risky investment tools. According to the crowdfunding

regulations under the FMC Act 2013, property developers/project owners can raise funds from the general public under a reduced disclosure regime, as opposed to the standard requirements of full disclosure (FMA, 2021a). While crowdfunding simplifies the typically arduous process of conducting a public securities offer, it also means investors often invest with limited information about the investments they are participating in, and this poses significant risks to the investors. For instance, a founder and CEO of a PC platform, acknowledged that detailed (and negative) information about the developers or project owners seeking funding may not be revealed on their platform. The interviewee expressed:

“The Financial Markets Authority has made it compulsory that we put a warning statement on our website, on the home page. And the warning statement explains the risks to investors when they invest in us. The whole point of crowdfunding is to make it very simple and very easy to be able to put offers in a platform and to sell them down to a crowd. And it means that we don't have to provide a disclosure statement to our investors. It puts the investors at risk, because the amount of information that we divulge for an offer is minimal for that reason – it's very simple. It's a very simple disclosure. They get to see basic information about the offer that's on there about the property. But it's not full information disclosure that is quite extensive and expensive to write up for each different offer. So for us, the whole point of crowdfunding is to simplify things, but it adds an element of risk potentially for an investor. So if we put in a request for project finance, at 12% return, this could be a big risk for an investor, because we might not expose any negative details about the person who is putting the offer, we might not tell the full story about their background. So that could be an issue. So that's the risk.” (P9)

The above founder/CEO's statement highlights that, according to the FMA Act, PC platforms are not legally required to provide highly detailed information about projects when raising finance from the general public; they simply need to put a risk warning for potential investors on their websites. While crowdfunding is designed to simplify the process of raising finance

by keeping information disclosures to a minimum, this can increase risks for investors. This leads to lack of transparency because projects posted on platforms reveal minimal information.

Interviewees contended that, on PC platforms, investors would invest in projects with limited or partial information about the project, thereby exposing them to risky projects. For instance, a director of a property syndication firm mentioned:

“Property crowdfunding is very risky because there is not enough information or disclosure for investors. ... A lot of the platforms are very obtuse, very unclear.” (P17)

The interviewee further added that although PC may provide investment opportunities for small investors, the lack of full disclosure presents risks for the investors. The interviewee said:

“It's an opportunity for smaller investors, I guess. But they got to be just so careful what they're getting themselves into. And there's a lot of people trying to make money out of properties through getting investments together without proper disclosures now. We don't want any more of that in New Zealand.” (P17)

This interviewee further added that because very little information is provided, ordinary people (i.e., unprofessional investors) may not understand the investments and risks involved; and if they do not understand the projects on PC platforms, they should not invest in them. The interviewee said:

“If you don't understand what you're investing in, then don't do it.” (P17)

Similarly, another interviewee argued that PC platforms must provide detailed information on projects seeking funding. The interviewee stated:

“When crowdfunding platforms do put up some of these loans on their portal for investors to consider, the level of disclosure needs to be a lot more robust.” (P4)

The illustrative quotations by P17 and P4 presented above suggest that lack of transparency and full disclosures on PC platforms are negatively impacting their growth. PC platforms typically provide very limited information about projects seeking funding. Usually a list of bullet points of key facts about the project are displayed on the website, and/or two to three pages summary of the project are provided. Therefore, ordinary investors may not get full information about the projects. The interviewees contended that PC platforms are struggling to gain traction because the perception of risk is high, and this is partly caused by the lack of transparency.

Interviewees argued that although a group of prospective investors, comprised of people with diverse knowledge and experience, can make sound investment decisions together as a group because they bring different knowledge and skills to the table, they need detailed information provided to them in the first instance. It is important for platforms to be transparent and provide detailed information about projects and their risks, so that investors can make informed investment decisions with confidence. This argument was best expressed by one interviewee, who previously worked at the equity crowdfunding platform PledgeMe, who stated:

“I think the key here is around transparency. Transparency is the most important thing, and the crowd, or the prospective investors, must be provided with all information. And, in crowdfunding, there is a philosophical argument of many people deciding as a collective being wiser than one expert. But ultimately in order for the crowd to act with full information, knowledge, and confidence, they got to have a clearer picture of at least the core risks and the core uncertainties of the project.” (P3)

The interviewee further elaborated that to provide transparency, platforms must ensure that the information on the projects posted on the platforms is accurate, truthful, and relatively comprehensive. PC platform managers must also verify the integrity and trustworthiness of the project owners seeking funding on the platforms, instead of completely relying on the platform and online-based communications. As the interviewee explained:

“So I think the platform plays two roles and that is ensuring the information provided is fair and honest and relatively full. And then secondly the platform as humans must develop relationships with the campaigner (i.e., project owner seeking funding) and trusting their own instincts and try to understand whether what the developer, or the campaigner is saying is really reflective of their intentions. Although that can seem like quite an abstract, difficult thing to measure, it isn’t, it actually is a skill that the crowdfunding campaign cultivators that I’ve worked with, have developed, to really have a good nose for that.” (P3)

Interviewee P3’s comments presented above reveal that PC platforms lack full information disclosures which increases risks for investors.

Transparency and trustworthiness

Interviewees believed that there is a connection between PC platforms’ transparency and trustworthiness; because platforms are not transparent, they are considered untrustworthy. Although having the FMA crowdfunding licence is helpful, transparency about the people managing the platform, as well as the systems and processes on the platform, are also very important in order for the general public to trust the platform. For example, one of the interviewees, a founder and CEO of a leading equity crowdfunding platform in New Zealand, best summarized this viewpoint by stating that PC platforms need to be transparent in order to gain the trust of the New Zealand public. The interviewee explained:

“I think platforms can gain the trust of the public by figuring out ways of not just communicating the idea, but people behind it, showing who's driving the platforms and why they are trustworthy. Part of that is transparency. Part of that is having good processes and policies and everything in place. Obviously, there's a level of hopefully trust that comes with getting a license from the regulator, the FMA. But I think trust is actually often showing to the general public the people who are driving the platforms, it's not just about the platform.” (P10)

The research participants also believed that there is a connection between lack of transparency and due diligence, a theme that will be examined in the following section. Without detailed and verified information about projects, prospective investors cannot carry out detailed due diligence analysis before they invest. This viewpoint was best presented by a senior advisor at a leading financial advice and broking services firm, who expressed:

“Unfortunately, crowdfunding, the way it's set up, and the platforms are guilty of failing to provide investors with accurate and full information as well. The information they provide, there's really no evaluation of it. There's no independent report saying this information is factual. As far as I can see, there's very little auditing, if any. Then, ‘pie in the sky’ figures are used, and of course when that happens, people would end up being disappointed time and time again. That's happened before. There's plenty of cases where you know, you find out nothing about the company after they grabbed your money. And that's what it's seen as from an investor or investment point of view. It's a way to start people in and with very little reward to the people that put the money in and plenty of reward to the people that take the money. So that's just not an even playing field. ... Crowdfunding, from what I've seen, they have minimal disclosure, it's not enough for someone to put real money into it.” (P28)

The comment above by interviewee P28 indicates that PC platforms have very minimal information disclosures, and the information they provide is not independently verified, which

in turn hinder investors from making well-informed decisions, resulting in potentially risky investments.

Transparency and reputation building

Yet another viewpoint from the research participants regarding transparency was that more transparency can help PC platforms to be viewed as viable investment tools, and help build their reputation. This viewpoint was best summarized by a director of a finance consulting firm, who explained that in order to make PC mainstream in New Zealand, more transparency is required on how the platforms are performing. Using the example of Zagga (www.zagga.co.nz), a mortgage-secured, peer to peer lending platform, the interviewee explained that PC platforms must emulate Zagga and publish data on their performance, and the returns investors are getting on the platform. This transparency will show that PC platforms are a viable investment tool, and thus help to attract investors. The interviewee expressed:

“Well, you need a success to be able to point to. Look at somebody like Zagga who are already doing it, who publishes some of their successes and failures, and then it can be seen as a viable option because good news travels. So if people are making 6% return on their money and that word gets around, it gets made public. By investing in relatively safe residential mortgages or contributing to mortgage type deals, then more people will become aware of the opportunity and will probably invest. So it's probably a question of getting the data either ideally from New Zealand operators, but also from international platforms that show that it actually is viable and works, and then marketing it.” (P5)

This interviewee further elaborated on how lack of transparency, and not providing information, cause PC platforms to be perceived as risky:

“Well, I am sure it's just down to perception of risks. And so I think there's a lack of transparency in terms of information available on how successful the deals are, whether

it's Snowball Effect or any of the others. People don't know how well they're traveling, because they're private organizations. I mean, if they could publish information such as the banks have to publish that say, what are their levels of bad debt, and how many deals do they do and what are the average returns, all of that sort of thing. I think that people might say, oh, this doesn't look so bad. So it's about transparency, it's about marketing, and getting out into the public.” (P5)

The above director’s comments highlight a predicament in which PC platforms are stuck: in order to grow, they need to attract a large number of investors (the crowd) and borrowers (i.e., developers/project owners) to their platforms, yet, to do so, they need to have some track record and data on successfully crowdfunded projects, which they are struggling to achieve.

While the interviewees argued that platforms must ensure that detailed information is provided, it may not be feasible for the platforms to do so if the developers do not provide such information. A PC platform founder explained that given platforms’ cost structures, they cannot afford to hire people to write extensive and detailed reports on each project posted on the platform because detailed information disclosures for projects are *“expensive to write up for each different offer”* (P9).

Since PC platforms are not required to provide detailed information disclosures to prospective investors, this presents a challenge of how to address the transparency problem, and provide information investors may request, because it is not a requirement, and it is too expensive for platforms to write detailed reports for each project. Project owners (i.e., developers) also lack the motivation to provide detailed information as they are not required by the law to do so.

Deliberate lack of transparency by developers

Some interviewees believed that the lack of transparency from developers on PC platforms may be deliberate; developers do not want the general public to know their profit margins. Further, asking developers to be more transparent can be challenging because they have other options for financing their projects; they do not need to use platforms. As one interviewee expressed:

“So I think first off, developers or project owners don't need to use equity crowdfunding. Because they've got plenty of opportunities or ways of raising finance. So I think that if a property developer was to run an equity crowdfunding campaign, there would be a lot more scrutiny for what they're doing. So there'll be deeper questioning of their motives and what they're getting out of it. And in essence, property crowdfunding may enable people to see with clarity, how inefficient the traditional property development model is. And how the games are won by one person. The idea of crowdfunding is about collective contribution and collective benefit. This seems to contradict with many contributing and one or a select few benefiting. And it's almost like an East versus West questioning of individualism and collectivism.” (P3)

The statement by P3 above suggests that crowdfunding a property development project would result in more scrutiny of the developer, and may reveal the (perceived) drawbacks of the conventional property development model and the profit margins developers make on their projects. The backdrop here is that property investors/developers in New Zealand have (perhaps unfairly) been blamed or criticised in the media for causing house price increases through speculative property purchases or investments; exacerbating the housing affordability problem, and making allegedly excessive profits. The concept of crowdfunding is generally considered to be about collective contribution and collective benefit for all the parties involved. This may be misaligned with property development projects where the developer makes what the “crowd” may consider to be too large profits, which may be viewed as an individualistic

position, while generally, in crowdfunding everyone is expected to benefit equally, which represents a collectivist approach. Therefore, if developers were to become more transparent, and provide full disclosures and detailed information about their projects, this may have negative consequences: they may expose themselves to scrutiny and criticism about their (purportedly high) profit margins from their projects.

In summary, PC Platforms do not provide full information and there is a lack of transparency. Platforms need to provide more disclosures to carry greater credibility and trust with the investment community. Project sponsors must provide more robust and detailed information about their projects. Platform managers must provide accurate, truthful, and full information about projects. The platform managers must also build real relationships with project owners seeking funding on the platforms and verify their integrity and trustworthiness. While crowdfunding is designed to facilitate easy and fast fund raising from the general public with minimal information disclosure, this leads to a lack of transparency, and causes investors to invest with limited information about the investments they are participating in, thus causing significant risks for them. In order to reduce the perception of risk, PC platforms must be more transparent and publish data on their performance; their successes and failures, and the returns investors are getting from crowdfunded projects on the platform. Although being FMA-crowdfunding licenced can help platforms to be seen as legitimate businesses, transparency about the people managing the platforms and the systems and processes on the platform are also very important, to increase the trustworthiness of the platform.

5.3.2 Lack of due diligence

A common view amongst the research participants was that PC platforms have a paucity of due diligence; prospective investors are not able to conduct thorough examination of projects before they invest, thereby potentially increasing (the perception of) risk for the investors. As an illustrative quote, one of the interviewees, a director at a non-bank lending firm, observed:

“In a crowdfunding platform you find that there's somebody behind who is effectively putting together a proposal for investors to consider without any depth of knowledge in terms of, well, what is the risk involved? So for example, in construction funding the big risk, well, is this particular developer, do they know what they're doing? ... You've got risks not only of somebody mismanaging the project, but you've got other risk as well, for example, have you chosen a perfect contractor that has the necessary expertise? Your initial budget, because you're budgeting, there are no certainties. Your quotes, do they have allowance for variation, cost inflation, etc. There's a lot to it and I'm just sort of touching on a few things. I don't think those platforms are suitable for loans which are more complex like construction projects.” (P4)

This interviewee added that, unlike banks or traditional non-bank real estate project financiers such as their firm, who are experts in financing real estate, PC platforms lack the knowledge and expertise required to conduct a comprehensive evaluation of a real estate transaction or project, before seeking funding for the project on the platforms. The interviewee expressed:

“I guess the thing about property finance is, unlike most financing, it's quite challenging or tricky.... If crowdfunding is involved in standard, non-construction finance, I think that space is not a bad use of crowdfunding as a financing tool in terms of a platform using public money, because the risks are quite low. On the other hand, construction finance is extremely risky. And if you think about it, so if you're doing construction finance, typically you would go to a bank. Now, the bank has said no to you, because you're not meeting their credit criteria. A bank, which is obviously quite a specialized expert in the field, has decided based on their research and said, "You

don't meet our risk factor and we don't want to lend." Now despite that, if you then go raise money on a property crowdfunding platform where you're basically borrowing money from mum and dad, who are not experts in the field, well, who is to evaluate the project proposal to determine that the risk is not as bad as bank thinks, therefore worth doing. In our view there's a lot of inherent knowledge and expertise that's involved in doing construction finance and banks are the appropriate sort of medium or traditional finance companies like us to do that where we have the knowledge and experience to do that." (P4)

The above director's comments suggest that PC platforms, and prospective investors, lack the expertise to conduct in-depth due diligence analysis of the risks involved in development finance, which can be complex.

Along similar lines, interviewees believed that PC platforms have the responsibility to conduct comprehensive analysis and vetting of crowdfunding projects, and this is currently lacking on the platforms. For instance, an interviewee who held the position of director of finance at the first property development crowdfunding platform in New Zealand, expressed:

"It really comes from the quality of the crowdfunder or platform, being cautious about what they allow to go into the website in terms of funding. So I know when we developed our model and when we got to the point of getting a license and we had the license, we had quite a rigorous process of vetting and considering what developments would be appropriate and what could go on our website. So, it wasn't a carte blanche.... If you're a developer, you can go on our website and do your crowdfunding, but, you had to have hit certain metrics and milestones of your development project to be able to list it." (P27)

The comment above by interviewee P27 indicates that PC platforms must conduct robust due diligence analysis and screening of development projects before they accept to post them on their platforms. Some interviewees also contended that PC has a poor reputation; it is perceived

as a “bottom of the barrel” financing tool, partly because of an absence of due diligence on the platforms. In the words of a banking managing director:

“If you talk to the more sophisticated investors like venture capitalists and angels and so on, to them crowdfunding is the bottom of the barrel. And I think that is because of a lack of understanding. And I also think it is because of the lack of being able to do deep dive due diligence on the crowdfunding platform.” (P2)

Citing some examples of business (non-property) equity crowdfunding projects that collapsed or went into administration after crowdfunding from ordinary Kiwi investors, this interviewee further added that although due diligence is essential, in the first instance, platforms must ensure that only high quality projects are accepted on platforms. As the interviewee explained:

“You've got to get the quality of the projects right. And obviously we've had a few “oopsies” along the way as well, for example Renaissance Brewing, and a handful of others. Now, companies fall over, we all understand that – there's no issue there. But some of that goes to the quality of the offering on the crowdfunding platforms, the quality of the companies, to the quality of governance of some of the crowdfunded projects.” (P2)

The director’s comments presented above suggest that lack of due diligence on PC platforms is negatively impacting how they are perceived. In addition to due diligence, platforms must promote only high quality property projects or companies with good management teams, to minimize the risk of failure.

Interviewees also believed that, as part of due diligence process, platforms must build strong face to face relationships with project sponsors seeking funding on the platforms to ensure that they are reliable, and that their projects are viable. As an illustrative excerpt, a lending executive at one of the big banks in New Zealand expressed:

“I think a platform’s due diligence process should focus on building real face to face relationships with the campaigner. And in that process, getting a sense of not just is this venture or this project viable, and is it feasible, more getting a sense of the character of the players that are initiating it.” (P3)

The comment by P3 highlights one of the drawbacks of PC platforms as Internet-based business models, which increases the risk of fraud, dishonesty, or deception. Accordingly, the due diligence process must involve some face-to-face interactions with developers or project owners.

PC platform founders and managers themselves also acknowledged that they need to appraise projects before accepting them on their websites. For example, in the words of one of the PC platforms managers:

“I’d be very mindful that we wouldn’t be placing offers in the platform from the developers that are perhaps inexperienced, that we are not sure about. So we would have to go through a checking process to make sure who we allow to put offers on the platform, we are not going to put our investors at risk because the last thing we want is be involved in scenarios which hit the newspapers very quickly and show the money that people have lost. Because that would be a terrible thing for us to get involved with. So we are kind of mindful of that. But it is difficult. At the one hand we’re a marketplace, we want a free market to operate. But on the other hand, we also want to be mindful that we don’t just place any offers on there that could put investors’ money at risk.” (P9)

The above comment illustrates that PC platforms managers are concerned about due diligence on their platforms; the quality of projects they post on the platforms, and the risks involved if ordinary Kiwi investors invest in projects that subsequently fail, which can tarnish their reputation.

The interviewees also believed that when PC platform managers post projects on their platforms, a complete set of necessary documents and information must be provided, to facilitate due diligence analysis. For instance, a director at a non-bank lender argued that, in addition to just the brief summary of the project that is typically displayed on the platform, there must be a downloadable documents link where prospective investors can view or download a full set of documents pertaining to the investment, and conduct their own due diligence analysis. The interviewee explained:

“When they do put up some of these loans on their portal for investors to consider, the level of disclosure needs to be a lot more robust. So for example, you might have a summary of what the investment opportunity or earning opportunity is, but behind that, they need to give people the ability to click a Dropbox link or whatever, and actually see the full set of documents. So if a project owner comes to a platform for funding, it’s important that there’s evaluation, there is a credit report, there’s an information memorandum. The entire documents suite should be available. Then people feel that, ‘Okay, look, I am going in with wide eyes open. I’m not just going to rely on a two- or three-page summary of what the investment is. I have the ability to do my own due diligence on the merits of this proposal because I’ve got access to all the reports that are available to the platform.’ And just having that transparency will certainly build a degree of trust. However, I feel that part of the reason the information is not available, it’s not just because of things like privacy and confidentiality, it’s more because some of these projects, probably have issues with them that they’re not quite happy to disclose to market.” (P4)

The above director’s view indicates that PC platforms need to provide more information to facilitate due diligence. However, this may be difficult for platforms to do if developers are not keen to disclose some information that may put off potential investors.

In summary, interview transcripts revealed that PC platforms managers or employees post projects on the platforms without in-depth due diligence analysis of the risks involved in complex development finance crowdfunding projects. PC platforms lack the knowledge and expertise required to carry out a careful analysing of complex real estate transactions. As part of due diligence process, platforms must build strong face to face relationships with project sponsors seeking funding on the platforms to ensure that they are dependable. PC platform founders and managers acknowledged that they need to appraise projects before accepting them on their websites. Detailed information and documentation about projects must be posted on platforms to allow prospective investors to conduct their due diligence. Rather than uploading only a few-pages summary of the project on the platform, more detailed documents about the project must also be uploaded for potential investors to review.

5.3.3 Lack of exit strategy and/or secondary market

Lack of clear exist strategies and/or secondary markets

Interviewees reasoned that PC platforms currently lack clear exit strategies and secondary markets for investors when they want to exit or realize their investments, thereby making PC an unattractive investment tool. Almost all interviewees raised the issue of lack of secondary markets and/or exit strategies on PC platforms in New Zealand. Illustrative interviewee excerpts are as follows:

“Circumstances do change. So how do they get out? How do investors get their money out? Who do they sell to?” (P20)

“The issue is what if someone wants to realize their investment, how do they get out?” (P2)

“It's not like an open market that you can easily sell the share. It's like someone else has to buy it. It's really a small market there. Who wants to buy it? If you tell people you've had zero returns, who wants to pick up that? ... Liquidation in property crowdfunding is terrible because basically you have to sell your shares, and someone has to willing to buy them.” (P19)

“With property crowdfunding, you are just putting your money into a group of shares you've got no control of. Are you able to get your money back out? ... For me, I would rather go buy some blue-chip shares and watch them grow and then if I don't like it, I just sell them. But property crowdfunding, how are you going to get out of it?” (P18)

“What's the exit strategy for all your investors? How do you make the decision of just holding onto that property or selling it?” (P21)

“The biggest risk, I guess, is, at what point, or time, do you want to sell your share, or what do you do when do you want to realize your share, your shared value?” (P22)

The above comments by P20, P2, P19, P18, P21 and P22 highlight that a lack of exit strategies and/or secondary markets is a significant challenge confronting PC platforms in New Zealand. Without clear exit strategies and/or secondary markets, PC in New Zealand is not an attractive investment tool.

PC platform managers are concerned about exit strategies on their platforms

Platform founders and managers who were interviewed were concerned about exit strategies on their platforms. For example, a CEO of a PC platform remarked:

“Prospective investors want to trust that they can actually get the money out.” (P9)

The platform manager further explained that one of the risks of PC is a lack of clarity on how people can get their money out if the platform fails. The CEO explained:

“Other risk of crowdfunding, I suppose, is that we could fail. So the risk is that if the property crowding platform fails and we have a hundred properties that have been funded, what happens to these hundred properties when we fail, when we go under? We take care of this risk by having each property in its own holding company. Investors will not lose their investment; they can either vote to sell that property or they can move the properties to another property crowdfunding platform. But there's a risk. But we tell them (i.e., prospective investors) that there's a risk. But worst-case scenario is you don't want to lose your money, you can sell the house because the house is sitting under a separate holding company. Or you can put them under another property crowdfunding platform if there's one around.” (P9)

The above CEO's comments demonstrate that lack of exit strategies is a major challenge for PC platforms. Platforms put each crowdfunded property under its own holding company to ensure that investors do not lose their investments if the platform itself fails.

A trading exchange market is essential

Another related theme that emerged from the interviews is a lack of an exchange market for PC. Interviewees believed that there is a need to have a market for the units/shares from crowdfunding investing where people can see the market value of those units/shares, and trade. As one of the interviewees explained:

“Property crowdfunding platforms need to have an exchange where people can trade the units or shares that they have issued on a property and give a real value to people. If I bought something through crowdfunding today, I want to see that I could buy or

sell it at a certain value or what have you, in a week's time, ... say there was a market for those units, I'd be much more comfortable because then I'd know on any given day what the market values are for those units or shares – at the moment that doesn't exist. Currently, it's very one-ended in that you put your money in, and who knows what happens after you have put your money in.” (P28)

In order for PC to work well in New Zealand, there must a market where shares of crowdfunding investments are traded, and clear exit strategy agreements for crowdfunded development projects are provided. The interviewee further explained:

“If people end up owning shares that can be easily traded, or have a put option in place, where they have the ability to sell after a certain period of time, or some agreements in terms of the development perhaps lasting three or four years and then it is sold and everybody gets their money back or more or the profit, it could work. But I would prefer to see some shares issued. ... Trouble with crowdfunding is, it's open to anybody. And so people who are not aware of the risks, regardless of them being displayed on a crowdfunding website, will find it quite difficult to get the dollars they put in back again, even in part. So yeah, that's the danger that I would say with property crowdfunding.” (P28)

This interviewee further elaborated that New Zealanders should not take the risk to invest through PC platforms, when there are many established and transparent investment options that offer liquidity for investors, and also information about the performance of the investments.

The interviewees stated:

“In my mind why even take the risk with property crowdfunding, if there's other investments where you're a far less likely to lose money and in fact probably more likely to gain money, and in a liquid market where you can see what the price of your shares or investment is on a daily basis. With mainstream investment options available in New Zealand, you've got excellent resources in terms of knowing how much your wealth is going up or down. Whereas in property crowdfunding, you've got absolutely no clue.” (P28)

The above presented remarks by P28 reveal that a lack of an exchange market or exit strategies cause PC to be perceived negatively, and to be considered high-risk investment.

Timing of exiting

Interviewees also pointed out that exiting crowdfunded projects can be more complex due to the fact that the timing of the exit must align with the rise and fall of the property market. As expressed by a property investor:

“If you're in a decreasing market, then this model doesn't work. So it has to be a capital appreciating market.” (P21)

The above property investor's remark suggests that if investors decide to exit when the market is declining, they may lose money. Thus, the PC model may only work when there is capital appreciation in the property market.

Proportional ownership of property, trading of shares, and fluidity

Interview transcripts revealed that PC platforms in New Zealand are struggling to grow because the concept of proportional ownership of property, whereby a group of owners can own a property and trade their shares within that group, is not yet developed. As an illustrative quote, a director of a property finance firm explained:

“Well, I think in the New Zealand market, the difficulty is proportional ownership. We still haven't really got that sorted. So as people develop that concept of proportional ownership, so that you have many multi-owners within a building and they can trade their shares within that group, then it'll start becoming more effective.” (P6)

This director further explained that secondary markets are essential for exiting the investments:

“Exit is very important. So what people are looking at doing now is having a means where you can have lots of proportionate ownerships of one building and the people within that group of people who own the building, they can trade, like a little secondary market or like their own stock exchange, in effect, share transfers within the group. ... The fluidity of the sale or the transfer of a product, and also the fluidity of ownership, are important. How the ownership transfers, it has to be very fluid.” (P6)

The above presented director’s comments indicate that the nascent state of proportional ownership of property in New Zealand is impacting PC and its exit strategies, and fluidity of PC investments.

Another issue that emerged is that exit strategies for investors are not particularly clear for property development crowdfunding. A director of a small investment bank expressed:

“Well, you got all the normal property development risks. But what happens if it doesn’t work out? What happens if you can’t sell the property? What happens if investors want to get out? So, you’ve kind of got all standard real estate risks, and the risk is that you do the development with funds from the crowd, and you can’t sell it, and you can’t rent it, or can’t get a return on investment.” (P2)

The above director’s statement demonstrates that, for development crowdfunding projects, in addition to the standard development risks, it is unclear how investors can get back their investments if the project fails, or if the developer fails to sell or rent the property.

In summary, interviewees believed that lack of exit strategies and secondary markets is a key challenge PC platforms face in New Zealand. PC platforms currently lack clear exit strategies and secondary markets for investors when they want to exit or realize their investments. There is a need to have a market for the units/shares from crowdfunding where people can see the markets value of those units/shares, and trade. Because proportional ownership of property is

not yet developed or accepted in New Zealand, this is impacting trading in multi-owned properties. Exiting crowd-funded project can be more complex due to the fact that the timing of the exit must align with the rise and fall of the property market.

5.3.4 Lack of scale and diverse properties

Interview data indicated that PC platforms lack scale and diverse properties. For investors, this limits investment opportunities and ability to diversify investments to minimize risks, and does not give them confidence about the platforms. As one of the interviewees remarked:

“You need a reasonable scale when you start a crowdfunding platform in terms of accessibility of investments to give people a bit of faith that this is not sort of an untrustworthy little platform. A slightly bigger platform with a variety of potential investments would be more reassuring.” (P7)

The interviewee elaborated:

“From the investor perspective, it's a risky investment. And I guess the issue with not having an established platform at the moment with a large volume of projects is that you are exposed to a small number of projects. I guess the idea would be you have a scale platform with a number of projects at any time and you would be able to properly diversify your investments. But without that, you're quite exposed to individual developments.” (P7)

This was echoed by another interviewee who explained that PC platforms in New Zealand do not offer potential investors numerous properties to invest in, so that they can diversify exposure and minimize risk. The interviewee stated:

“Those platforms, they only have one or two properties and then they try to get people to invest in them. ... To actually minimize your risk, you need to actually build a decent

property portfolio and then your risks are reduced. ... The risk with the property crowdfunding platforms is that they don't really have many properties, it's only just one property that the customers are investing in.” (P19)

The illustrative comments by P7 and P19 presented above indicate that, because PC platforms are only getting started, they have limited projects listed as investment opportunities on their websites, which in turn cause them to be viewed negatively by potential investors because they do not offer diversified investment opportunities. Similarly, a CEO of a PC platform explained that New Zealanders are not accepting or supporting PC due to a lack of a wide range of properties or investment opportunities on offer. The CEO said:

“They want to see a selection of properties.” (P9)

The CEO’s remark is reflective of the challenges faced by their platform (which is focused on completed residential properties). Specifically, after obtaining its FMA crowdfunding licence, the platform had only one property as a crowdfunding opportunity on its website, namely a residential property in Browns Bay, North Shore, Auckland, and it struggled to attract crowd investors for this single property.

Along similar lines, interviewees postulated that PC platforms are facing a common challenge for two-sided market platforms, as one interviewee expressed:

“There is the difficulty of establishing scale on both sides of the market, so that you're able to attract the retail investors to fund a meaningful amount of the portfolio, while simultaneously of course, attracting the projects before you kind of had the investor base. So, there is that challenge there. I think this is a challenge of establishing any kind of a two-sided marketplace. So yeah, without scale at the moment, I would have thought that none of them (the PC platforms) are very compelling places for investors to try out or it's difficult to trust them. And the implication of that is the pricing of the

funding is high for the developers, there are potentially high costs that are going to have to be covered, because of the lack of scale.” (P7)

Similarly, the interviewees also expressed that some developers would be interested in crowdfunding their projects, but there is no large, established and compelling platform which developers can use to fund raise. For example, as one interviewee stated:

“For crowdfunded property investment, I think developers would be really interested in it. What's putting them off at the moment probably is the lack of scale of the property crowdfunding platforms. There's no credible crowdfunding partner out there.” (P1)

The comments by interviewees P7 and P1 presented above suggest that PC platforms are struggling to build a two-sided marketplace on their platforms, that is, to simultaneously attract the “crowd”, namely investors who will invest on the platform, and also attract project owners, i.e., borrowers who will raise finance/borrow on the platform. Further, platforms’ lack of scale means there are no economies of scale, thereby making PC a costly financial tool. Furthermore, the small size of PC platforms cause developers to think that there is no sizable platform they can use to successfully raise finance for their projects.

In summary, interviews data suggest that lack of scale is one of the challenges PC platforms are currently facing in New Zealand. PC platforms do not offer investors the opportunity to invest in a broad range of projects or properties to diversify their investments. Due to lack of scale, PC platforms may not look credible funders to developers. The platforms have not yet managed to build scale of both sides of their market, namely the developers or project owners seeking funding and thus offering investment opportunities, and the general public (the crowd) who can invest.

5.3.5 Lack of crowd

Another theme that emerged from the interviews data is that PC platforms in New Zealand are failing to take off due to a lack of the ‘crowd’ on the platforms to invest in projects. For example, as one interviewee explained:

“You've got to remember that in crowdfunding, a lot of the decision-making by people making investments is around investing what they love, because they like the product rather than from an investment focus. So, that's where the B2C (business to customer) comes in – they have their own crowd already, their customers.” (P2)

The interviewee further explained that it can be difficult for a project sponsor (i.e., developer), to attract a “crowd” that can invest in their project on PC platforms. The interviewee explained:

“The challenge will always be where does the crowd come from? People prepared to take a punt on someone, ... they probably don't know and understand the risk, they probably don't know and understand property crowdfunding, that's always the challenge. And where does the crowd come from?” (P2)

The interviewee further explained that the concept of developers raising equity finance from the general public, thereby giving New Zealanders the opportunity to invest in development projects in New Zealand is good. However, the interviewee was unconvinced that New Zealanders are interested in getting involved in development projects. This then leaves developers with a fundamental problem of getting the crowd investors to support their projects and invest in them. The interviewee expressed:

“I think the thinking on raising equity development finance from the general public is right. I am just not sure that that's necessarily something the New Zealand investment public would be in interested in. Because where do you get your crowd from?” (P2)

Interviewee P2's comments illustrate that developers, and PC platforms, lack crowd investors ready and keen to invest in developers' projects. This means the developer and the platform would need to work together to promote the project and mobilize the "crowd" interested in investing. Typically in equity crowdfunding and charity crowdfunding, individuals who get involved in crowdfunding are usually motivated by the desire to support something they "love"; something they are passionate about, a new product by a company they like, or a worthy charity cause. When people decide to support and invest in a crowdfunding project, it is not always about the return on investment. Successful equity crowdfunders are usually business to customer companies with a new product which the company's customers already want or need, and so they support the company's crowdfunding campaign. For developers, they typically do not have people who are interested in, or who are already supportive of their projects.

In summary, experts interviewed believed that PC platforms lack crowds to invest in projects. Developers in New Zealand face a fundamental challenge of how to attract the crowd; how get New Zealanders interested in, or supportive of their projects, and invest in them. New Zealanders typically support causes, products, projects, or companies they "love" and are passionate about. There is no crowd waiting, ready and keen to invest in developers' projects on the platforms. Developers would need to put in some promotional work to attract New Zealanders to invest in their projects. PC platforms have not built communities of investors / financiers (the crowd) and borrowers/developers (the project sponsors) on their platforms.

In conclusion, this section of the chapter has presented views from the research participants on the limitations of and challenges faced by PC platforms in New Zealand. Overall, the platforms lack transparency, due diligence, exit strategies and secondary markets, scale and diverse properties, and crowds to invest in property projects.

5.4 Contextual factors impacting property crowdfunding in New Zealand

The fourth theme that emerged from interviews data analysis is contextual factors impacting the growth of the PC sector in New Zealand. Analysis of this theme answered this study's fourth sub-question:

Sub-Research Question 4: What contextual factors have influenced the development of property crowdfunding in New Zealand?

The sub-themes examined under this theme are as follows:

- Construction/developers
- Cultural/behavioural factors
- Regulatory framework
- Population and income

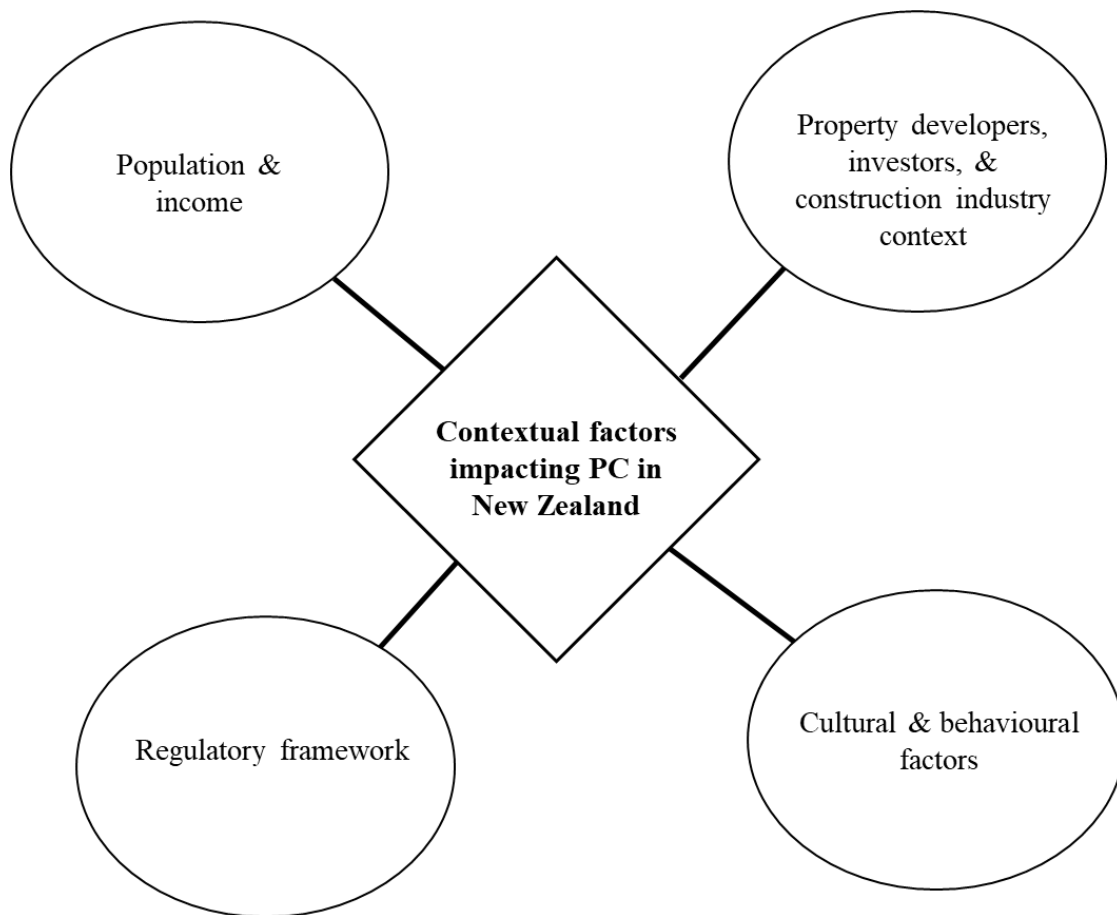
The sub-themes and respective key issues that emerged from the descriptions of the contextual factors impacting PC in New Zealand offered by interviewees are outlined in Table 11 and illustrated in Figure 29.

Table 11*Contextual factors impacting PC platforms: Sub-themes and key issues*

Sub-Themes	Key Issues
Property developers, investors, and the construction industry context	<ul style="list-style-type: none"> ▪ Developers and platform managers find dealing with the crowd inconvenient and challenging ▪ Developers prefer to raise finance with a single lender ▪ Developers want to have control of their projects, which they lose if they involve crowds in financing their projects ▪ Poor reputation of property developers/construction industry impacting PC ▪ High risk for ordinary New Zealanders to invest in developers' projects ▪ Developers are not perceived as trustworthy ▪ Developers are not interested in using PC platforms because if a development fails, many ordinary people would be impacted, and this may ruin the developer's reputation ▪ There are many options for financing real estate; developers do not need to use PC platforms ▪ PC platforms can help financially challenged developers to increase the equity component of their projects, in order to meet banks' lending criteria
Cultural/Behavioural factors	<ul style="list-style-type: none"> ▪ PC and fractionalised ownership of property are not aligned with the Kiwi home ownership mentality ▪ New Zealanders would rather continue saving up money until they are able to buy their own individual property ▪ Investing through a platform is just like company shares, it is different from directly purchasing/investing in property ▪ While New Zealanders have a strong appetite for investing in property, they prefer to invest in completed properties with an income stream, and this impacts PC for development projects ▪ New Zealanders are not well-informed about financial matters, and this will impact their acceptance of a new financing tool such as PC ▪ New Zealanders do not have a "great investment psyche" ▪ New Zealanders are conservative investors ▪ New Zealanders have previously lost investments in property and in non-bank financial products, and this impacts the acceptance and uptake of PC
Regulatory framework	<ul style="list-style-type: none"> ▪ FMA's \$2 million/annum cap is hindering the growth of PC in New Zealand ▪ The \$2m cap means that it is not feasible to crowdfund large real estate projects ▪ The \$2m cap has forced PC platforms to raise funds for small developers only; and focus on the lower end of the real estate finance industry. ▪ PC platforms are required to meet numerous requirements to crowdfund property ▪ Obtaining the FMA crowdfunding licence is an arduous process
Population and income	<ul style="list-style-type: none"> ▪ The number of PC projects that can be successfully crowdfunded may be limited by the small size of the NZ market ▪ Most New Zealanders do not have discretionary money to spend or invest on the PC platforms ▪ Most New Zealanders' money is tied up in KiwiSaver ▪ Long term, because the New Zealand market is small, PC in New Zealand will probably remain small, with about two or three key PC platforms ▪ Lack of knowledge about PC ▪ Some people generally have low level of financial literacy

Figure 29

Contextual factors impacting PC in New Zealand



The contextual factors impacting PC in New Zealand are presented in the following sections.

5.4.1 Property developers, investors, and the construction industry context

Dealing with a crowd of investors can be inconvenient and challenging for developers

Interviews data indicated that New Zealand property developers and platform managers find dealing with a crowd of investors inconvenient and challenging. This viewpoint was best explained by one of the interviewees, a former manager at Fulqrum, the failed property development crowdfunding platform, who expressed:

“So from the developer's perspective the risk is the fact they're having the deal with the whole crowd. You've got hundreds of investors that you are now trying to deal with. So it's just an administrative headache that a developer just doesn't want to take on. So at Fulcrum we had developed a model where all the investors' interests were siphoned through a conduit. So essentially a representative or an agent for the investors. And investors personally couldn't necessarily engage with the developer which then undermined the whole basis of having a share, which is, you have a voting interest. So you've got the issues with the equity law in New Zealand and how they stand and how they are written into the crowdfunding legislation, they are at odds with the developers and what they want, which is essentially just money and get on with the project, and not have to correspond with hundreds of investors about the project, about how it's proceeding or not proceeding.” (P27)

Interviewee P27's comment above reveals that developers do not like having to deal with large 'crowds' as financiers of their projects as this can be an “administrative headache”. Developers just want to get funding and focus on working on their development projects. While New Zealand crowdfunding legislation gives the crowd the rights to be fully involved in crowdfunded projects, developers find this inconvenient.

The comment by P27 raises an interesting question about how PC changes the dynamics of development projects. On one hand, PC platforms can offer several benefits to developers, such as free advertising for their projects, attracting more investors to support the projects, and more stakeholder engagement. On the other hand, PC investors can present administrative challenges, and they can give poor reviews to the developers on the platforms as well as on social media, an issue raised by P9 below. The poor reviews can be targeted at the developers, and/or bank or non-bank financiers involved in the project, and this can disrupt the process, and also present reputational risks. As stated later Section 7.7, the complex and nuanced

relationships between PC platforms, banks, investors/the general public is an area that will require further analysis in the future once PC platforms gain traction.

The viewpoint offered by P27 was echoed by a manager of a completed residential crowdfunding platform who has experienced the challenges of having the crowd as investors.

The manager stated:

“Because you're dealing with lots of small investors, they can be quite vocal, and they might take up a lot of time. So we have questioned a \$100 minimum investment for that reason, because you're dealing with perhaps a lot of retail investors who are not that savvy, who have never invested, but they have \$100 and they liked the idea, but they have a lot of questions. And because they don't understand, it's not just the questions, but they also get very negative on us as well. They may be very negative on social media about us. So we have had quite a lot of negative commentary and some people who have described us in terms that have been a little bit unkind because they didn't just understand what we were doing. So dealing with the crowd is difficult because you are dealing with potential investors who are putting a small amount, ... but also they could be quite noisy, but asking questions too. So they could come to us and say, hey, what's happening with our property? How do I know that it's in good hands? Where's the inspection report? So they could really be quite a nuisance to us trying to run the business when they all want the attention of the house. These guys, the crowd, might say, well I want to see my house. You can't have a thousand people going to a house. So you have to limit what they can do. So it takes some of the control away from the investors, the crowd. Some of them might want more control, because we are taking the control off them to enable to us to run the show. But some of them want the control back and then it's going to get problematic.” (P9)

The above manager’s comment illustrates that most people who invested on their platform were not savvy investors, and, after investing \$100, they want constant updates, they want to go and

see the property, and they have plenty of questions, thus creating significant work for the platform manager.

Another related perspective that emerged from the interviews was that developers are not likely to use PC platforms to raise finance because they prefer to finance with a single lender, as this is more convenient. For instance, one of the interviewees, a director with a non-bank lender, explained:

“I think any sort of informed developer would not use the property crowdfunding platform whatsoever. Because from a developers’ perspective, they want to be dealing with a lender who has full control of their loan. Here is an example, if there are cost overruns, if there are delays, they will be able to go to the lender and explain to them, ‘Look, these are the issues. I need a little bit more money or I need the terms of the loan extended.’ If you’re dealing with a single lender where there’s a single credit manager, they have the flexibility. They say, ‘Look, that sounds fine. We will increase your facility limit by X amount and will increase terms.’ That’s a simple example. Now, if you’re dealing with a crowdfunding platform, you don’t have that luxury, because it has to go back to every single person on it who had bought a share of your loan to agree. And that just doesn’t happen. It can be very difficult when ten people that had been brought into a loan, for all of them to agree. So I don’t think developers would choose to use these property crowdfunding platforms.” (P4)

The above director’s statement highlights that, for developers, raising finance from a single (institutional or high-net worth individual) lender for their projects is better than raising from a crowd of many people at PC platforms.

Another related theme that emerged was that residential developers want to have control of their projects, which they can potentially lose by involving the crowd in financing their projects, and this causes them to avoid using PC platforms. One interviewee, an executive director of a financial services firm, explained:

“Developers, residential developers – they like control. I know that if you do crowdfunding, you can sell down a proportion to non-voting. But ... I think what happens is developers know that if they're financially strong enough, they're going to make it, they don't need crowdfunded capital raised from the crowd via the platforms. And the developers that do need it aren't strong enough, and therefore, when you look at it, you say, it's too risky. (P6)

The above director's comment suggests that, because of fear of loss of control due to involving the crowd in financing their projects, only financially challenged (and therefore riskier) developers would use PC platforms.

Poor reputation of the construction/development industry

Interview data also indicated that poor reputation of property developers and the construction industry in New Zealand, which includes the issue of leaky homes, are impacting the PC financing model. For example, an interviewee explained:

“I guess, Kiwis are not likely to be interested in investing in developers' projects on platforms because of the perception that this is quite a high-risk space to be investing in, due to the leaky home issues in New Zealand in the past. And I'd say that probably the general risk appetite of New Zealand investors is fairly low. I think even when it comes to the share market, New Zealand has been characterized as fairly conservative on the recent retail side. So property developments would probably face the same issue.” (P7)

Another interviewee supported this viewpoint stating that given the number of developers who have collapsed in the past, there is always the risk of a developer collapsing after crowdfunding investors have put their money. The interviewee stated:

“A developer or a construction company failing is always a risk. ... Developer or construction company's collapse is certainly one of the key risks that people should be

thinking about before they invest in development companies seeking to crowdfund.”
(P2)

Another argument that emerged from data was that due to developers’ poor record, it is too risky for ordinary New Zealanders to invest in developers’ projects, particularly large projects. This argument was well-explained by a director of a commercial property syndication firm who expressed:

“In smaller projects, maybe property crowdfunding can play a role, but it is high risk, and developers are notorious for getting money and then it all disappears. Too many developments suffer because people are hungry, they are very greedy, especially developers and they have a cycle of boom and bust. And I don't think it should be offered to the general people at all. Property is right up the front end of economic downturn in any economy, because that's what the banks lend on. And when the downturn comes, especially developments really suffer, because they've over-extended themselves. ... They haven't got the equities themselves. That's a cocktail of disaster for investors.”
(P17)

Interviewees were of the view that crowdfunding development projects will face challenges because developers in New Zealand are not trustworthy. As one of the interviewees explained:

“You have to build to trust in the society. I think that's a big thing. A lot of developers I wouldn't trust them as far as I can throw them, and you've got some good developers, but a lot of them are pretty shonky. ... You've got the risk of the building company doing a runner or not finishing, going bust or whatever. You've got all those typical risks of doing a development.” (P21)

The above-presented comments by P7, P2, P17, and P21 suggest that the poor reputation of developers and the construction industry is negatively impacting the perception of PC as an investment tool as it is considered risky.

If a crowdfunded project fails, a developer's reputation can be tarnished

Another viewpoint that emerged from the transcripts is that developers are not interested in using PC platforms because if a development fails, many ordinary people would be impacted, this will be publicised, and this may ruin the developer's reputation, unlike when the developer has been funded by a bank or mezzanine financier. This perspective was best summarised by an interviewee who stated:

"I think from a developer's perspective, it would be far more public, if a crowdfunded development was to fail. You would have potentially thousands of investors that would lose money on that, and that may have severe implications on their reputation. In comparison, things are a lot more private if they just dealing with themselves, a bank, and a mezzanine financier." (P7)

PC is not needed in the development finance sector

Interviewees argued that there are many options for financing real estate, and developers do not need to use PC platforms. For example, a director of a small investment banks stated:

"There's plenty of mezzanine funders around, developers can go out and get \$10 mil, \$20 mil for their projects, so they don't need to go to these platforms service providers." (P2)

Another interviewee supported this argument, stating that there really is no lack of development finance, at least for reputable developers who can easily borrow finance for their projects. And when developers need non-bank finance, they traditionally go to mezzanine funders, with whom they are familiar:

"Property crowdfunding as a whole has not really taken off. And I am not really surprised by that because the constraint in the market is not the lack of capital" (P25)

The interviewee added:

“Mezzanine financing is the traditional route. People use the sources of finance that they know.” (P25)

PC platforms give developers access to finance

Despite the rather negative perspectives on developers using PC platforms to raise development finance, a few interviewees believed that PC platforms can offer developers some benefits. For instance, one of the interviewees, a platform manager, explained:

“Property crowdfunding will be a very viable option for say developers to raise finance, because you're accessing investors' money from investors that you would normally not be able to get or attract in the first place. So one thing the property crowdfunding platforms do is they bring exposure to the project. So it's an advertising platform. It's a place for them to expose the project and to showcase what they have to offer. It's for them to place the offer, to describe the offer, to describe the yields, social returns, photographs, plans, any reports. So this is really a place for them to prove themselves and to showcase themselves. And for them it would be a PR exercise in some way. ... They can tap into the crowd, the retail investors, the small-time investors who could never play partners (in development projects).” (P9)

Interviewees were of the view that PC platforms can help financially challenged developers to increase the equity component of their projects, in order to meet the banks' lending criteria. In the words of one of the interviewees:

“Crowdfunding can fill any gaps between the equity of the developer and what the banks are willing to lend, or perhaps help the developer meet a certain return profile, that they would not be able to meet under bank financing arrangements.” (P7)

The interviewee further added that crowdfunding finance can be an alternative for mezzanine debt:

“And just to add to that one, I think property crowdfunding can be sort of a replacement or alternative for mezzanine debt ...” (P7)

The above comments by P9 and P7 suggest that PC platforms enable developers to access investors they would not typically been able to access, and using the platforms can help advertise the developers’ projects. Developers can use platforms to raise equity they need to be able to then borrow from banks. Overall, the transcripts data suggested that contextual factors regarding property developers, investors, and the construction industry context may impact the growth of PC in New Zealand.

5.4.2 Cultural/behavioural factors

Analysis of the interviews data indicated that several cultural and behavioural factors in New Zealand have impacted PC platforms’ growth, or lack thereof.

PC is not aligned with New Zealanders’ home ownership mentality

Interviewees contended that PC and its underlying concept of fractionalised ownership of property is not aligned with the Kiwi home ownership mentality because the feeling of real ownership of a home or investment property is lost. As one interview remarked:

“I think Kiwis have had the quarter-acre dream mentality forever and owning your own home was a rite of passage. When you talk about fractionalized ownership or crowdfunding, I think that real ownership feeling goes away. I think it goes down and it doesn’t really feel like your own property. It just feels you’ve got some money in Bitcoin kind of thing.” (P15)

Along similar lines, some interviewees believed that rather than investing via a PC platform, New Zealanders would rather continue saving up money until they are able to buy their own individual property. As two interviewees expressed:

“I think New Zealand as a country people like to own their own property. So I think the crowdfunding platforms whilst they would give the investors the chance to own some property, ideally individuals would actually like to be able to save up and actually buy and own their own individual property outright rather than be part of a platform. So I think that's the fundamental reason. And it's sort of a cultural change that amongst New Zealanders that the majority of younger people would prefer to save up rather than invest, say \$10,000 in a crowdfunding platform, save up until they have \$50,000 saved up and then they'd be able to get their own loan and actually start their own property portfolio themselves.” (P24)

“I'm sure property crowdfunding might appeal to maybe the people in their 20s or 30s but it all depends on what they're going to get out of it. I mean, I'd say most people's focus on property to begin with is owning their own or having their own place to live rather than investing in some development that will give someone else a home.” (P28)

Similarly, another interviewee, a managing director of another PC platform argued that PC in New Zealand could maximize its potential and achieve more success if it were better designed to help first home buyers; if its governing regulations facilitated helping them. The interviewee explained:

“I think property crowdfunding has a lot of potential. But I find that, the FMA doesn't really understand how to use the crowdfunding platform to deliver the best results for those first home buyers or those property investors.” (P11)

The above comments by P15, P24, P28, and P11 illustrate that PC in New Zealand is struggling to take off because it is not aligned with the Kiwi mentality of home ownership, and it is not

designed to help first home buyers. New Zealanders prefer to save money and buy their own first home or investment property, rather than investing via PC platforms.

PC is not similar to property investment; PC is “paper investment”

Interviewees were of the viewpoint that investing in property through a platform is just like company shares; it is different from directly purchasing or investing in a property. As a leading property developer and investor explained:

“Property crowdfunding is sort of like company shares really, you're investing in a company to make these decisions. So if things go wrong, it's just a paper investment. So it's like ‘poof’, it's gone. But if you invest in property yourself and property value does go down or declines, at least you can go and touch your property, it's rock solid. You can go to your house that you bought or your rental investment property, it might've gone down in value, but yet it's still there. Whereas this is a paper investment.” (P20)

A related viewpoint that emerged from the data is that while New Zealanders have a strong appetite for investing in property, they prefer to invest in completed properties (residential and commercial) which have an income stream. This suggests that crowdfunding development projects can be challenging in New Zealand. This argument was best summarised by one interviewee who remarked:

“Well, look, I mean there is a strong appetite for investment in real estate. New Zealanders love property as an investment, both residential and commercial. Property development probably less so, because I think Kiwis prefer that completed asset – completed residential or completed commercial buildings. It delivers them a steady income stream. They like investing in completed assets rather than taking on the cost of development.” (P26)

The above statements by P20 and P26 demonstrate that New Zealanders prefer to directly invest in real estate, and in completed properties with income streams. This therefore makes PC platforms unappealing, particularly so for platforms focused on development projects.

Lack of investing psyche

Interviewees also contended that New Zealanders do not have a “great investment psyche”. For instance, one of the interviewees, a director at a property finance firm, explained:

“New Zealand's public, we don't have great investment psyche, we don't run around looking for investment. I think one of the realities of both the UK and the US, or any of those other countries, is that the low interest returns that they've been able to get from banks has actually been part of their mindset for probably 5 to 10 years. So people have actively looked around to find high yielding returns. ... Then add the fact that you've got hundreds of millions of people more and you only have to put out a couple of developments that look half decent, and you've got a fighting chance that you'll get a good number of investors, so they got decent capital. So the relativity of New Zealand to those markets is worth comparing, but the actual realities of the two markets are extremely different. US has got 360 million people.” (P8)

This argument was echoed by another interviewee who observed:

“PC Platforms are a good business overseas because they got negative interest rate. In New Zealand, we've got positive interest rate. People can still deposit their money and they still get 2% savings accounts or whatever.” (P19)

The above-presented statements by P8 and P19 reveal that PC platforms in New Zealand are struggling to grow because on one hand, in overseas markets such as USA and UK, people get very low or negative returns from their savings accounts in banks. As a result, they are always looking for investment opportunities with better returns. On the other hand, in New Zealand, people can get some returns from their banks' savings accounts, albeit low. Further, large

populations in overseas markets such as USA with 360 million people make it easier to crowdfund real estate projects, unlike New Zealand's small population of 5 million.

New Zealanders are conservative investors, in part because of prior investment losses

The interviewees opined that PC has not significantly taken off because New Zealanders are conservative investors. Kiwi investors also already have their preferred (and better) avenues of investing, and may not wish to learn about new ways of investing, such as PC. As one interviewee observed:

“When it comes to investment, I think New Zealanders are very conservative. And part of it is also demographics. Most of our savings or investments happen through a much older age group, and they've always invested in a certain way. There is no need for them to, and there is no desire from them to learn about all this new stuff such as property crowdfunding.” (P25)

New Zealand investors are conservative because they have previously lost millions of investments in the non-bank finance or second tier lending sector during the 2007-2008 GFC. This has caused investors to be very risk averse, and will likely cause them to prefer safer investing channels. This will make it challenging for PC platforms to attract investors, and gain traction because Kiwi investors are untrusting of finance products offered by new companies with no track record. This viewpoint was well-explained by one of the interviewees who expressed:

“Property crowdfunding platforms are in a difficult spot. I think it could be a much more of an uphill, slower climb for them, because Kiwis just have that very, very conservative attitude to risk. People have been through a lot. The history of collapsed finance companies in New Zealand will be another hurdle. The finance company disasters of South Canterbury Finance, Hanover Finance and Bridgecorp Holdings.

All of that post GFC mess in the lending space really spoke to people. So that caused investors to retrench and be even more risk-averse, and say well, if we're going to lend that money to anyone, we're only gonna lend it to the cream of the crop. Highest credit weight rating, highest quality, lend it to the bank. So that's another hurdle that people have in the back of their mind. That poor experience in the second-tier lending space post the GFC.” (P26)

While PC promises high returns on investment, the way PC is perceived in New Zealand is influenced by the recent historical context of property development and investment, as well as investment in non-bank financial products in New Zealand. As one interviewee expressed:

“Investment products promising high returns isn't actually necessarily the best. People get a little bit scared... a little bit scared of promises of high returns, because a lot of them have been burned through the 80s in the share market crash and stuff. And also property development, in general, its associated with sort of cowboys and lots of money and risk. It's had a rough run. So, I think that does hinder. I think people think about that.” (P15)

The above illustrative statements by P26 and P15 revealed that New Zealand investors are apprehensive of PC because they previously lost investments in other non-bank finance or second tier lending sector investments.

Overall, interview transcripts indicated that cultural and behavioural factors have impacted the growth of PC in New Zealand.

5.4.3 Regulatory framework

The NZ\$2 million/annum cap is hindering the growth of PC

Another sub-theme of contextual factors impacting PC's growth in New Zealand that emerged from the data relates to the regulatory framework for PC in New Zealand. A common perspective amongst interviewees was that the FMA crowdfunding regulation which stipulates that a developer can only raise \$2 million from a platform within a twelve-month period is hindering the growth of PC in New Zealand. The interviewees thought that this cap was one of the key underlying reasons why developers are not using the platforms, and why PC is not gaining traction in New Zealand. As some of the interviewees expressed:

"I think the reasons why property crowdfunding is struggling to take off in New Zealand is some of it is the \$2 million cap. Some of it is, I think our investing community is not that sophisticated." (P1)

Another interviewee observed:

"I don't think property crowdfunding is really in the mindset of developers. I just don't think that developers are thinking about using crowdfunding to fund development... I just don't think it is in their mindset to go down that sort of road and raise say \$20 grand each from 100 people, or smaller amounts from a larger crowd, to get the \$2million which is the cap on what they can raise." (P2)

Yet another interviewee, a PC platform manager, said their focus is on completed residential property because the \$2 million per year cap makes it unfeasible to do crowdfunding for large commercial or residential real estate project crowdfunding:

"We have a \$2 million per annum cap in New Zealand for a raise for an offer. So if we're putting an offer on the platform with that \$2m cap, that's kind of difficult if you're dealing with a large commercial or residential property." (P9)

A bank lending executive who also previously worked as a lending executive at the main equity crowdfunding platform in New Zealand expressed that the FMA's \$2 million cap is a hurdle for developers. The interviewee argued that raising capital from the crowd can enable developers to start a development project by purchasing land, before getting a loan from the bank. However, for most large projects, \$2m is not enough to purchase land. The \$2m cap stipulated by the FMA is misaligned with land values/prices in New Zealand. The interviewee explained:

“So, if a developer was to raise money through, let's say PledgeMe, through a crowd-oriented crowdfund platform, mainly retail investors, they could only raise \$2 million. And I find that can be a restriction. The \$2 million cap is actually a hindrance from developers' perspective. I know that for developers, that raise can unlock funding from financial institutions ... that fundraise can provide the money to kick off a project, which is usually buying the land. But there is a mismatch between land prices and the legal limits on how much any one developer organization can raise through crowdfunding.”
(P3)

Along similar lines, another interviewee argued that the \$2m cap means that it is not feasible to crowdfund large real estate projects. The interviewee stated:

“I think there's a current limit on crowdfunding of \$2 million. ... So that makes it difficult to fund very large or expensive development projects.” (P7)

An interviewee who was part of the management team at the first property development crowdfunding platform that was awarded a licence by FMA, but later collapsed, explained that one of the reasons why their platform failed was because the amounts developers could raise were not high enough to attract developers to the platform, given the cap of a \$2 million raise per year per developer. Further, the returns which the platform was offering were not large enough to attract investors. As the interviewee explained:

“For Fulcrum, it didn't quite work out...It was clear that the kind of money we were going to bring to the table with Fulcrum, it wasn't going to be enough to entice developers to sign up. The returns weren't big enough for lots of investors to come in and put lots of money in it.” (P25)

The issue of returns on investment raised by P25 will need to be examined by future scholars, after PC platforms have gained traction in New Zealand. PC platforms do not yet have time series data from transactions to facilitate in-depth analysis of returns on investment. Further, an issue of high compliance costs for platforms due to FMA regulations was also raised in this study, e.g., P2, in Section 6.7.1. Although property fundamentally offers high returns in New Zealand, there is a need to analyze the returns which investors can get, in the context of PC platforms and their cost structures.

Interviewees believed that the FMA \$2million cap has forced PC platforms to potentially raise funds for small developers only; deal in small real estate projects only, and focus on the lower end of the real estate finance industry. One director said:

“So our peer-to-peer crowdfunding legislation has reduced disclosure, which has always been a barrier to raising funding. So reduced disclosure, but, the maximum that can be lend is \$2 million. So that's essentially the fundamental limitation of peer-to-peer and crowdfunding in New Zealand. So, with that \$2million cap, you automatically go into the small space and so you're effectively dealing with smaller investors... the \$2 million limit means that you must be focused and targeted at small amounts from many investors – that's written into the New Zealand FMA crowdfunding legislation. That perfectly says that you've got to design your product to be for the smaller end of the market.” (P27)

Along similar lines of the regulatory framework, some of the interviewees who founded PC platforms indicated that the process of getting their licence from the FMA was arduous,

challenging, slow, and involved a lot of questions from the FMA. For instance, one interviewee, a managing director of another PC platform argued that there are too many FMA regulations which platforms must meet. The interviewee expressed:

“Based on our platform’s experience, we found that there are still lots of government policies and regulations you have to meet before you can legally launch a property crowdfunding campaign. There is more policy, and more regulations you have to meet, which stop people doing property crowdfunding.” (P11)

Echoing P11’s sentiments, another interviewee, a managing director of a private equity firm who is also a founder and director of one of the equity crowdfunding platforms, stated:

“The process of applying for a crowdfunding licence is really slow from the FMA side. But having said that we have been slow in some of our responses back to them as well. So it's kind of taken a lot longer than I would have liked. We were just having the limited bandwidth to be able to respond to some of the questions from FMA...so I can't just blame the FMA for it being a slow process at the moment.” (P2)

The above-presented illustrative statements by P1, P9, P3, P7, P25, P27, P11, and P2 reveal that the NZ\$2 m/annum cap is hampering the growth of PC platforms in New Zealand. Overall, interviews data suggested that the regulatory framework in New Zealand; the crowd fundraising cap, the rules platforms must meet, and the apparently arduous process of applying for and obtaining the FMA licence, have all collectively hindered the growth of PC in New Zealand.

5.4.4 Population and income

Small population, small market

Analysis of the interviews data indicated that population and income factors have impacted PC platforms' development in New Zealand. Some of the interviewees stated that the number of PC projects that can be successfully crowdfunded may be inherently limited by the size of the New Zealand market. For instance, one interviewee, a managing director of a small investment bank, explained that due to New Zealand's small market, it is likely that there would be very few crowdfunded project deals that are completed every year. The interviewee stated:

"I wonder how many crowdfunding offers the whole market of New Zealand can digest in any one year. It would surprise me if a platform could get more than six property crowdfunding deals done in a year." (P2)

The interviewees believed that the New Zealand market is probably not big enough for too many PC platforms. They speculated that, in the long term, there will likely be two or three major players and a few minor ones. As one interviewee postulated:

"If you look at what's happened internationally in America and others, they are doing quite well. I think New Zealand, though, you will probably end up with maybe two or three major players, but I think that the size of the market, I don't think the market's large enough for any more than that. We just don't have enough transactions to even justify having lots and lots of those platforms." (P4)

Interviewees also argued that it is uncertain whether PC will take off in New Zealand due to the market's small size which affects economies of scale. Crowdfunding is a model that relies on large number of people, and New Zealand has a very small market, compared to other countries where PC has succeeded. One of the interviewees expressed:

“It's just a question of whether or not crowdfunding will take off. And you've got the economies of scale. I mean in the US and overseas is a much, much bigger market, much more mature market. New Zealand obviously just in sheer numbers is a tiny, tiny market. And for crowdfunding to take place, it relies on numbers of people. Obviously, that's going to be the biggest hurdle for anyone trying to do that in New Zealand.”
(P24)

Limited discretionary income, and low savings, impacting PC platforms as investment tools

The research participants believed that PC has limited opportunity to grow in New Zealand as an investment tool because most New Zealanders do not have discretionary money to invest on the PC platforms. This is because New Zealanders put their money into their homes or their KiwiSaver. After paying their mortgages or rents, and KiwiSaver, not many people have spare money left to invest on a PC platform. Although people in the higher-level of income or wealth may have some disposable money to spare, they are likely to invest in real estate directly, or invest through other investment avenues that offer liquidity, such as the share market. Further, PC platforms do not compare favourably against private equity, another investment option that is available to people. As one interviewee commented:

“I don't think New Zealand has a lot of room for crowdfunding platforms as an investment tool. People put their money into their homes, into their houses, unfortunately. They put the money into the KiwiSaver and there isn't really a lot left, unless you're in the very top tier of wealth and these are probably going to avoid crowdfunding too, because they can invest more directly and skip the middleman, or they invest in the share market or bonds or what have you and that's got liquidity. So it's not really a space I see succeeding because I don't see what the platform providers really gives you that's different from private equity. And with private equity, you have a more direct investment, rather than trusting a crowdfunding platform site” (P28).

Another interviewee emphasized this point, suggesting that people's money is tied up in KiwiSaver, and people generally have low level of financial literacy. Since PC is a new and innovative tool, educating people about it would be required. The interviewee stated:

“The big challenge in New Zealand for the general public investing is that capital is all tied up in the KiwiSaver. And also because of the low level of financial literacy, an understanding around investing in general, it's going to be really hard...people don't generally understand investing. So they are just not going to go with it [i.e., property crowdfunding investing].” (P2)

Interview data also revealed that savings are very low amongst millennials and younger generations, and, for people in this demographic group, savings are tied in KiwiSaver, and they cannot access or unlock their KiwiSaver savings via PC platforms. One interviewee expressed:

“Most of our millennial generation and the younger generation have their money tied up in KiwiSaver. Saving is very, very low. So they can't access that KiwiSaver through crowdfunding. ... I think, again, savings is very, very low. So people don't have cash to throw around. ... And I don't meet any millennials that say, yeah, so I've got \$25,000. I'll throw it into this development project on this crowdfunding platform.” (P15)

The above illustrative comments by P28, P2, and P15 suggest that PC platforms in New Zealand have been impacted by limited discretionary income, KiwiSaver, and low savings.

Lack of knowledge and education about PC among New Zealanders

Analysis of interview data indicated that PC's growth in New Zealand has been hindered by lack of knowledge about PC as an investment tool and as a finance tool. In order for PC to potentially grow in New Zealand, there is a need to first educate the New Zealand public, because currently there is a lack of knowledge about PC. As numerous interviewees commented:

“The majority of people have just got no awareness or no understanding of what property crowdfunding actually entails and so they are cautious, and don't want to participate.” (P31)

“I think to begin with, platform managers need to educate the public about how the platforms work. And I think a lot of people don't know that.” (P4)

“It takes a lot of education and promotion, getting out there and talking to people about what they offer. But I think also that crowdfunding probably appeals to the more beginners' type investors rather than the more experienced people.” (P23)

“I would think the average person would not really know what property crowdfunding means. And they certainly wouldn't understand how it would work and the risks. And so they would feel that it is well outside their comfort zone. So education is important.” (P26)

“A lot more education about property crowdfunding is required, because it's so different, so new, in New Zealand. A lot of people just need to get their head around it. Tell people exactly what it is, what your return on investment is, and if there's any exit strategies.” (P29)

Yet another interviewee indicated that PC is slow taking off in New Zealand because the investing community is not sophisticated enough to quickly accept PC:

“I think our investing community is not that sophisticated.” (P2)

Another interviewee observed:

“I think the biggest challenge will be the acceptance by the public. I mean, it seems very, very few people understand how property crowdfunding is going to work. Many property investors, first home buyers, or home buyers, don't know about the Financial

Markets Act. They don't know the real meaning of crowdfunding and they don't even know how much regulations the FMA has for property crowdfunding.” (P11)

The above statements by P31, P4, P23, P26, P29, P2, and P11 highlighted that the lack of education and understanding of PC amongst New Zealanders has hindered the growth of PC platforms. Overall, interviewees believed that population and income factors have impacted the growth of PC in New Zealand.

In summary, interview transcripts revealed that the number of PC projects that can be successfully crowdfunded may be limited by the size of the New Zealand market. Savings are low; most New Zealanders do not have discretionary money to invest on the PC platforms. Most New Zealanders' money is tied up in KiwiSaver. Some people generally have low level of financial literacy. Because of New Zealand's small market, PC in New Zealand will likely remain small, with about two or three key PC platforms. Lack of knowledge about PC is impacting its growth; the majority of New Zealanders do not understand PC and what it entails, and, as a result, they are not keen to participate in PC projects.

5.5 Response strategies of incumbents to property crowdfunding

The fifth theme that emerged from the interviews data is response strategies of incumbents, namely traditional financiers of real estate projects, such as banks, to PC. Analysis of this theme answered this study's fifth sub-research question:

Sub-Research Question 5: How may the real estate project finance industry strategically respond to property crowdfunding?

The data revealed three strategies which incumbents can use in response to PC, as follows:

- Ignore property crowdfunding
- Collaborate with property crowdfunding platforms or integrate property crowdfunding with own business model
- Strengthen own business model/products/services through incremental innovation

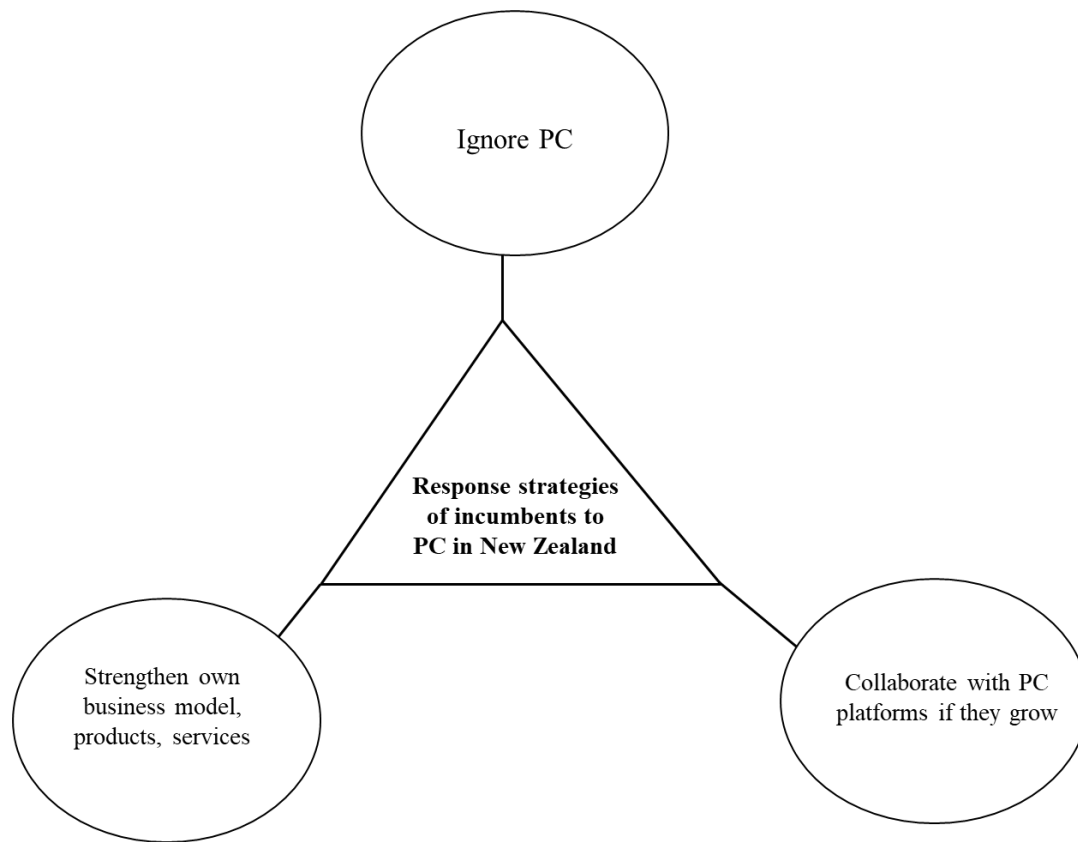
The sub-themes and key issues from interviews data regarding response strategies of incumbents towards PC are outlined in Table 12 and illustrated in Figure 30.

Table 12*Response strategies to PC: Sub-themes and key issues*

Sub-themes	Key Issues
Ignore Property Crowdfunding	<ul style="list-style-type: none"> ▪ Incumbents in the real estate project finance industry, such as banks, can respond to PC by ignoring it because although they are in the same industry, they are in different businesses, different markets, and play different roles in financing real estate ▪ PC is a new, unproven, and untested business model ▪ PC is still small, has not achieved scale, and focuses on the lower end of the market ▪ PC platforms may present reputational risks and contagion risks to banks ▪ There may be disadvantages to ignoring PC platforms, if they gain traction and grow in the future
Collaborate with PC platforms	<ul style="list-style-type: none"> ▪ Collaborate with PC platforms because they are an adjacent business ▪ A complementary relationship exists between platforms and banks ▪ Incumbents should get involved with PC platforms early on to learn about it and analyse its potential, without making a significant capital outlay ▪ Collaboration between banks and PC platforms can help platforms to gain credibility and trust in the market
Strengthen business model	<ul style="list-style-type: none"> ▪ Banks must provide better services and make it easier for people to get finance, in order to remain competitive against innovations coming into the industry ▪ Banks must streamline and simplify their services for customers, to better compete against crowdfunding platforms which leverage technology and the Internet to offer several technology-enabled advantages ▪ Competition from innovative platforms will cause banks to improve their products and services, leading to improved customer services and experience

Figure 30

Response strategies of incumbents to PC platforms



5.5.1 Ignore property crowdfunding

Interview transcripts data showed that incumbents in the real estate project finance industry in New Zealand, such as banks, can choose to ignore PC, as their strategic response. Incumbents can basically disregard PC and take no notice of it, and continue to operate as usual, with no changes to their businesses. The data indicated several justifications for this response, as follows.

Same industry, but different businesses, different markets, and different roles and purposes.

Incumbents such as banks can ignore PC platforms because banks and platforms are in the same industry, but they have different businesses; they serve different markets and have different roles and purposes in the capital stack of a property development project, and therefore do not pose a competitive threat to each other. Developers can use PC platforms to raise equity from the general public for their development projects, and then access a loan from the bank. A bank director commented:

“Right now, I don’t think there’s a lot of risk in ignoring property crowdfunding, because from the banks’ point of view, we want the developer to have equity, financial equity. The onus is upon the developer to come up with sufficient equity. I think and believe that banks are going to continue to ignore property crowdfunding and the developers will use it to raise equity for their debt funding from the bank.” (P2)

Interviewees argued that incumbents can ignore PC platforms because crowdfunding can be used to raise equity and fill the gap between the developer's equity, and what the banks are prepared to lend, especially for financially challenged developers failing to meet banks’ lending criteria. For example, one interviewee explained:

“Crowdfunding can fill any gaps between the equity of the developer and what the banks are willing to lend ... So for example, some of the structures I've seen, you could have a high risk developer who can only put 20% equity down on the project and then say the bank would only be willing to lend an LVR of 60%. You’ve got a missing 20% in the middle. And what I saw was the idea to fill out that 20% with preferential equity from crowdfunding.” (P7)

Interview data revealed that banks can ignore PC platforms because platforms are serving a different market segment from banks, thus pose no threat to the banks, and the two can co-exist in the financial ecosystem. As one interviewee stated:

“Banks are essentially already thinking that property crowdfunding will not be a genuine competitive threat. ... From the banks’ perspective, there might be a case of, well, we think you’re just attacking a different part of the market to us and it’s not a part of the market that we were interested in. So we are happy to just carry on doing what we’re doing. We think there’s room for both in this industry.” (P26)

The above comments by P2, P7, and P26 suggest that banks can ignore PC because the platforms will serve the purpose of providing equity for developers, so that they can then get a bank loan. Although banks and PC platforms are both in the real estate project finance industry, they have different purposes. Further, it is likely that mainly small, financially challenged developers (whom banks may prefer not to lend to) will use PC platforms.

PC is a new, unproven, and untested business model

Interviewees were of the view that incumbents can afford to ignore PC, at least in the short-term, because PC is a new, unproven, and untested business model with no proven record yet in New Zealand. As illustrative excerpts, two interviewees stated:

“There’s no proven track record of property crowdfunding at the moment, so it’s a high-risk activity for banks.” (P29)

“Probably banks don’t trust property crowdfunding too much; maybe they are concerned that there may be some kind of problems with crowdfunding soon. Maybe they consider it a very risky business.” (P12)

The above remarks by P29 and P12 indicate that banks can ignore PC because it does not have a proven record; incumbents would consider PC risky.

PC platforms have not yet established a viable business

Interviewees from the banking industry in New Zealand were of the view that the PC financing and investing tool offered by platforms in New Zealand is not yet finalized, since some platforms are currently refining and improving their platforms and what they offer, and this means there is nothing yet for the banks to respond to. As one interviewee, a senior executive at a big four bank in New Zealand, stated:

“We at (Bank X) are engaging with these entrepreneurs (i.e., platform founders), looking to develop relationships or partnerships with property crowdfunding like Miuwi and the Property Crowd. We are engaging with them. And they haven't established a viable business. They haven't found the product – market fit yet.” (P1)

Further, PC platforms are currently trying to gain traction, and they don't compete with banks.

In the words of one interviewee:

“I don't think banks have to necessarily strategically respond to property crowdfunding... well, platforms are currently trying to gain traction. Also, these platforms do not necessarily compete with the banks.” (P7)

The comments by P1 and P7 presented above highlighted that banks can ignore PC platforms because they have not yet established products/services best suited to the New Zealand market, and they do not directly compete with banks.

PC is still too small to pose any threat to incumbents

Incumbents can ignore PC because it is still very small, and therefore it does not pose any threat to banks. For instance, a senior manager in one of the main banks in New Zealand stated:

“What are we responding to? There's nothing of any scale. There's nothing to respond to.” (P1)

Several other interviewees supported this point of view, as follows:

“Property crowdfunding is not a threat to banks. It’s too small. Once it becomes a threat, then banks will be worried about it. They will be interested in giving a return to the shareholders. So if something’s going to compromise the return of the shareholders, they’ll combat that. In its current format, it’s not a risk, it’s such a minute fraction of the market not worthy of even worrying about it.” (P27).

“Well, some banks’ view is that it’s not really going to take off. People aren’t going to embrace it and it’s not a genuine threat to your business model. Ignore it and move on and carry on as usual...” (P26)

“The banks’ rationale of ignoring property crowdfunding platforms is that the platforms are small, and the banks are the traditional financiers of property. It’s just not a big threat coming from property crowdfunding platforms, because banks have the scale there.” (P16)

“They are small still, I’m not aware of any platforms that have any meaningful scale, and also I don’t think it would be a threat to them.” (P7)

“Banks are currently not interested in property crowdfunding platforms because they haven’t hit any scale yet. The banks are not known to be risk takers. It’s almost the definition of being a bank. So the banks are happy to let all the start-ups and everyone else go and try to get it going and then clearly they’ll watch and look from the sidelines and when it starts to happen, and when one of the property crowdfunding platforms players starts getting critical mass and it’s growing, then the banks will get involved. But until then, I’d be surprised if banks were to get involved with the platforms.” (P13)

The above-presented excerpts by P1, P27, P26, P16, P7, and P13 demonstrated that banks can respond to the emerge of PC by ignoring it because the platforms are not yet large enough to capture the interest of banks. The perception is that PC is not going to succeed, or grow to any significant scale, and is not likely to be profitable.

PC is designed for the lower end of the market; it is ideal for small developers

The common view amongst the interviewees was that incumbents can ignore PC because it will be confined to the smaller, lower, and fragmented end of the market, and is therefore not particularly a threat to banks. Only small property projects of approximately \$5 million will be transacted on the platforms. A director of a property financing firm summarized this viewpoint as follows:

“At the moment I think the only people that would go to crowdfunding are the people that are at the lower end of the market, the smaller end of the market. Say, may be up to \$5 million deals.” (P8)

PC is suited for small scale developers, individual developers, start-up developers, or mom and dad type of developers, looking to build six to seven townhouses. Larger development companies do not need to use the platforms as they can easily get the development finance they need. Thus, PC is likely to remain small, and banks can therefore ignore it. One of the interviewees explained:

“More often than not, larger development companies already have the capital that’s required. I’m of the belief that crowdfunding will only be suitable for maybe six-to-seven townhouses sort of developments. Maybe you are a mom and dad type of developer who want to get into that type of deal, or you’re very start-up type of developers, or an individual developer, I guess...property crowdfunding is really suited for small scale developers, mum and dad sort of investors or someone looking at building or developing say six to seven townhouses.” (P29)

Interviewees P8 and P29’s comments suggest that banks can ignore PC because it is designed for the smaller, lower end of the market. Only property developers or project sponsors who are very small; starting out, or financially challenged are likely to use the platforms.

PC platforms may present reputational risks and contagion risks to banks

The research participants also highlighted that PC in New Zealand is risky because the platforms connect the general public or ordinary New Zealanders who are often less sophisticated investors with potentially higher risk developers, and this provides a rationale for incumbents to ignore PC. This was explained clearly by one participant who stated:

“The most obvious risk of property crowdfunding I can see is that you’re putting together potentially much less sophisticated investors and putting them in touch with potentially much higher risk borrowers or developers. And so the biggest risk is that you have a whole range of ordinary Kiwis put in their \$100, \$500, \$1,000 investments. You have a developer on the other side who couldn’t get funding through the traditional sources, because the project is a little bit of marginal one anyway. And he or she is not really top-tier and then they have a bad experience if or when something goes wrong, and those people lose their money. And it’s on the front page of the newspaper. If that happens, no one is ever going to do property crowdfunding again in New Zealand.”
(P26)

If a bank is involved in a crowdfunded property development project that subsequently fails, this can have negative consequences for the bank and damage or tarnish its reputation and brand image. A leading banking, property finance expert, explained:

“One of the biggest constraints to crowdfunding from a bank’s perspective is that if the development hits the wall and the bank had a primary funding relationship, they are at risk of contagion when the reputational risk of a crowdfunding platform going down the tube. And that’s one of their biggest concerns.” (P8)

Because banks are highly regulated, they would not be interested in getting involved in unproven innovations that may cause the general public to lose their money. An interviewee expressed:

“Banks are very risk averse. They not interested in something risky, something not tested or fully proven. The bank could lose its reputation if it is involved in a crowdfunded project that fails. Due to a lot of bank regulations which banks must follow; they are not interested in innovations that may negatively impact people.” (P12)

A former director at New Zealand’s first property development crowdfunding platform that failed to take off explained that banks turned down requests by the platform to collaborate in financing development projects, because of concerns that crowdfunded projects involving ordinary New Zealanders, mum-and-dad investors may damage the banks’ reputation if the projects fail. In the interviewee’s words:

“When we were developing our platform, one of the concerns that came from the big four banks when we went to present to them was, ‘We’re concerned that if a project fails, of course it’s going to look bad on you as the crowdfunding platform, but it’s also going to look bad on us as the bank, because we’ve got hundreds of mum-and-dad investors involved in these developments, they don’t understand the development environment. They haven’t appreciated the risk despite the FMA requiring 10 different warnings before they sign, and it failed.’ And so what happens in the Media? ‘Ah, crowdfunder let this fail. (Bank X) let it fail.’ And is the tall poppy syndrome that exists.” (P27)

Yet another interviewee expressed:

“There’s reputation risk, I think. When you start having thousands of people involved in these developments, likely risky investments - if these developments go badly on a platform that the bank has their name on, then it’s reputational issues for the banks there.” (P7).

The perspectives offered by P27 and P7 illustrate that PC platforms may present reputational and contagion risks to banks, and the banks should therefore ignore them.

Disadvantages to ignoring PC platforms

While most interviewees believed that the industry can afford to ignore PC, a few argued that there may be some disadvantages to ignoring PC platforms.

Lose market share, lose part of business

Although simply ignoring PC in the short term is justified given PC's nascent state, there may be some potential risks in the long-term. For instance, the platforms may take a small share of the market in ten years' time, thus potentially posing a threat to banks' business. As one of the interviewees explained:

“The risk is that banks may be wrong in assuming these platforms are not a risk, that they are not genuine competitors. Then, banks wake up in a decade and the platforms have taken 10% of the market, and cost banks some problems and they've underestimated them.” (P26)

If PC takes off, it may potentially pose an existential threat to traditional banks because it potentially attacks banks' core businesses, namely property financing. As one interviewee commented:

“You'd be mad if you are a bank that does not tactically respond, you don't want to do a Kodak, right? Kodak didn't go into digital, and it died. Similarly, if you're a bank and you do bricks and mortar, you have home lending or property financing as your only business and eventually people are starting using fractional property investing or crowdfunding and you [the bank] were not there, the risk is existential. Because at the end of the day, it'll happen simply because it's very similar to the stock market in terms of you don't buy ever a whole company, do you? You buy a bit of the company. So, same with the properties.” (P13)

Banks get left behind

Interviewees also believed that if banks do not embrace the new innovations and technologies that are coming into the industry, such as property crowdfunding, they face the risk of being “left behind”. As one of the interviewees explained:

“For banks, the risk always around not engaging in new technologies and innovations is that they will be left behind, because someone will get a clear market advantage and then you won’t be able to keep up. But yeah, I don’t think we’re ever going to come to a point where there is no role in society for banks or financial institutions. I think there are things that they do, and they are needed for. And then there are things that technology is shifting, technologies are moving some of the need for having banks.”

(P10)

The above-stated viewpoints by P26, P13, and P10 indicate that there may be some risks or disadvantages for banks if they ignore PC. PC may take off and grow in New Zealand and take a small share of market. This is important because developers can raise equity and/or debt from the platforms. Further the New Zealand society may eventually accept PC and fractional property ownership or investing. Banks may be left behind as PC and other financial technology (FinTech) and property technology (PropTech) innovations come into the market.

In summary, the interpretation of the interview transcripts suggests that, ignoring property crowdfunding, and continuing with business-as-usual, is a valid and justified response strategy banks can use towards PC, for numerous reasons. Banks and platforms are in the same industry, but they have different businesses; they serve different markets, and have different roles and purposes. PC is a new, unproven, and untested business model; it has no proven record yet. PC is still small; the platforms have not yet achieved scale, and therefore they do not pose any threat to banks. PC is designed for the smaller, lower, fragmented end of the market (small developers and small projects) and is therefore not particularly a threat to banks. PC in New

Zealand is risky because the platforms connect the less sophisticated investors with potentially higher risk developers. A bank's involvement in a property crowdfunded project exposes it to contagion and reputational risk if the project fails because ordinary investors may lose their money.

5.5.2 Collaborate with property crowdfunding platforms

The interpretation of the data suggested that the second response strategy incumbents can use towards PC is to collaborate with PC platforms.

PC Platforms are an adjacent business for banks

Banks can strategically respond to PC by collaborating and working together with platforms because they offer a solution to equity financing in the capital stack. There is a complementary relationship between platforms and banks, they both finance property's capital stack. Interviewees suggested that it is advantageous for banks to collaborate with platforms because the platforms are an adjacent business for banks. As one of the interviewee explained:

“There is potential for the banks here to collaborate with or encourage property crowdfunding platforms. Because property crowdfunding is a sort of solution to part of the financing stack that banks participate in. Potentially there is an opportunity for the bank because it's an adjacent business for them. Because similarly to Harmony, which is partially owned by Heartland bank here. So similar kind of idea. I would have thought that the banks may have some interest in and sponsoring a property crowdfunding platform.” (P7)

Platforms and banks can collaborate on equity and loan structures in the capital stack of property projects whereby platforms provide equity and banks provide loans. As one interviewee stated:

“Property crowdfunding is focused on equity, while banks or second tier lenders are in the debt markets. So they can work with each other, with crowdfunding doing the fund raising in the beginning, and the financial institutions doing the debt finance, providing debt.” (P11)

A founder and director of one of the PC platforms, reported that he has had discussions with two of the largest banks in New Zealand. One bank was interested in providing debt to property development projects that raise equity from the crowd on their platform. The interviewee stated:

“I’ve only had discussions with a couple of banks who are interested. One bank is wanting to contribute by putting in debt, so, very simple. ... So there’s plenty of opportunities down the line for conversations to be had. I don’t know what form they’re going to take in as yet...but they’re interested in putting in debt of their own into these projects.” (P9)

Interviewees were of the view that some banks may invest in some platforms and take partial ownership of some platforms. For example, one interviewees explained:

“I think we may see some collaboration, some partnering between banks and crowdfunding platforms. Heartland Bank have an ownership stake in Harmony, for example. And so, do I think there will be a major reaction from the banks to go and buy crowdfunding platforms and peer to peer lending platforms? Probably not. But we might see, partnering or maybe a little bit of partial ownership or maybe even some underwriting.” (P2)

The interviews data suggested that banks can continue with their normal business, products and services, and also cooperate with a platform in financing project projects. This will enable

the banks to evaluate the new PC sector at low cost and risk. As an illustrative example, an interviewee said:

“By continuing with their traditional way of business, and also being involved in the crowdfunding space, through cooperation with an existing platform, banks can probably try out a new market and test a new product or service, at a lower risk and lower cost.”(P12)

Banks may consider acquiring platforms and/or the talent that created the platforms, in order to constantly find ways of improving their products and services; provide better customer experience, and better support their customers. As one of the interviewees explained:

“I think the acquisition to innovate strategy can work for banks...Banks can innovate by acquiring the platforms. So, buying the platforms or buying the talent that created the platforms to figure out new ways of supporting customers. But I think purchasing the platforms or acquiring the current talent is sort of acknowledgement that innovation is constantly happening. So, it’s not just you buy it and then you’re done. It’s how do you keep on improving?” (P10)

Get involved with PC platforms early on to learn about PC and analyse its potential

The interviewees indicated that banks should get involved with PC platforms early on in order to learn about PC and analyse its potential, without making a significant investment. This argument was best presented by one interviewee who explained:

“In New Zealand, we’re not sure how the property crowdfunding space is going to develop. But banks may be having these views about property crowdfunding...that it might fall flat on its face and just go away, but we’re not brave enough to write it off or we’re not arrogant enough to just write it off like that. So let’s get involved in some shape or form and either as an investor in one of those businesses and we can see what they’re doing from the inside ... If it fails, we’ve wasted a little bit of money. But if it

succeeds, we're sort of in the team and we can integrate it into our own business and get a piece of that, rather than just keeping our head in the sand." (P26)

This interviewee further described that by investing in, or forming a partnership with a platforms, New Zealand banks can get a "foot in the door" and learn about PC. He described:

"You get your foot in the door, you see how it goes. You learn about it. If you gain some confidence and you think that that is going to work and it's going to be a genuine competitor, then you throw some capital and some investment into it and you do scale it up and embrace it. Well, probably, in New Zealand, we are not at that point yet. But if property crowdfunding is going to be a profitable space here, if it's going to allow banks to sell more products to more customers, if it's going to improve their brand and make them look more dynamic and modern, why wouldn't they?" (P26)

The interviewee further explained that banks should get involved with, form partnerships with, or invest in PC platforms early on, when the business value of the platforms is still low, in order to offset or neutralize the potential threat these platforms may pose, or capitalize on any benefits the platforms may offer. The interviewee explained:

"I would think that banks would be wise to be thinking about collaborating with the platforms and the time to do that is early on. These businesses aren't worth much at the moment as crowdfunding businesses because they haven't really got any customers. They don't really have a business. All they've got is a great idea, maybe a license, maybe a website, but they haven't really got much more than that. So, if a bank wants to offset their potential threat, get alongside the platforms early when it doesn't cost you much money, don't wait five years until they've actually built a bit of a business, then it's going to be a lot more expensive because they don't need you as much, do they? At the moment any property crowdfunding platform would probably jump at that chance, XYZ bank wants to get alongside me...if I were a platform, I probably would jump at the chance. So strategically that's maybe the way they should be thinking about it." (P26)

The experts interviewed suggested that banks should ideally get involved with PC platforms and hold discussion early on, in order to establish upfront the terms under which banks would lend to crowdfunded projects, to ensure successful collaboration or co-financing between the two parties. One of the experts interviewed explained:

“In order to have efficient collaboration, banks and crowdfunding platforms could establish some kind of standards which crowdfunded projects that need to later borrow debt from the bank must meet, for the bank to consider them. ... So it is therefore important for the cooperation between banks and platforms to start in the earlier stages, not later, so that platforms know what the banks expect, for them to co-finance or give debt to a project from the platform. ... it must be decided in the earlier stages, what should be the rules exactly. ... Banks have regulations they must comply with, and they cannot lend to projects that are not in line with these regulations. So, it must be decided in the earlier stages, what the rules a project must meet should be exactly.”
(P12)

The interviewee further explained that if banks inform platforms their lending criteria for crowdfunded property projects, this will help to ensure successful co-financing of projects between banks and platforms, and this is a “win-win situation” for both parties. As the interviewee expressed:

“It's better if banks tell the platforms early on what would be needed in projects for banks to participate. Crowdfunding platforms could then work to ensure their projects would meet banks' lending criteria and conditions. This would be a win-win situation for the bank and the platform.” (P12)

The illustrative remarks by P26 and P12 presented above revealed that it would be advantageous for banks to collaborate with, or get involved in PC, early on. It would also help both parties if they were to establish, upfront, the banks' lending rules for crowdfunded projects.

Collaboration between banks and PC platforms can help build credibility and trust of platforms

Interviewees argued that collaboration between banks and PC platforms can help build credibility and trust of platforms in the market. For example, one of the interviewees explained:

“If the crowdfunding industry could partner with financial institutions that would bring some credibility to what they're trying to offer. I don't know which financial institutions would be the appropriate ones because property crowdfunding platforms can be viewed as something that's essentially a competitor to the banks. So maybe the banks aren't going to want to have any involvement, but the crowdfunding platforms almost need some large financial firms that have some credibility and some brand and maybe even some customers in some contexts to somehow partner up with, to give them their credibility and track record that they [the platforms] don't have at the moment.” (P26)

One of the interviewees, a founder and CEO of one of the PC platforms in New Zealand, perceived that due to the newness of PC, it is probable that the general public do not trust investing via their platform. They believed that a partnership between the bank and the platform, whereby the bank provides debt for crowdfunded projects would be beneficial for both of them. The partnership with a bank will help the platform to gain the credibility it needs, and banks will provide debt to crowdfunded properties and this is beneficial for both parties.

The interviewee explained:

“For us, we obviously are facing trust issues. Who knows? I mean, the best thing to do would be a bank to partner up with us and say, listen, just use your crowdfunding and we'll put in 25% debt ... we will help you and go on your journey because obviously there's money to be made.” (P9)

This platform founder and CEO further explained that property projects co-financed by banks and platforms will mean less risks for the crowd investors. As they stated:

“I think co-financing is one logical way...where banks provide expertise for the crowdfunders to come in with their particular loan types, their investment types. Banks also have distribution, and they have clients. Obviously, customers like that they can actually go out there and tap people [the public/crowd] into their projects and perhaps provide a sense of legitimacy and just help the growth from there.” (P9)

Similarly, another interviewee argued that if or when banks and platforms start to collaborate, the bank would bring its trusted brand, knowledge, and expertise to the platforms. The result of this would be safer crowdfunding platforms for the general public. As stated by the interviewee:

“Banks could use their trust and knowledge and experience and all that sort of stuff to provide a safer platform for people.” (P16)

The perspectives offered by P26, P9, and P16 presented above suggest that collaboration between PC platforms and banks can offer mutual benefits to the two parties involved.

In summary, the second response strategy banks can use is to collaborate with PC platforms, for numerous reasons. Platforms are an adjacent business for banks, they offer a solution to equity financing in the capital stack. There is a complementary relationship between platforms and banks, they both finance property’s capital stack. Incumbents should get involved with PC platforms early on to learn about it and analyse its potential, without making a substantial investment of capital. Collaboration between incumbents such as banks and PC platforms can help platforms to gain credibility and trust in the market, although for banks there may be risks associated with the collaboration.

5.5.3 Strengthen own business model/products/services

The interview transcripts revealed that the third strategy which banks can use to respond to the emergence of PC is to strengthen their own traditional business model, products and services through incremental innovation, in order to better compete with innovative models entering the industry. Interviewees believed that banks must strengthen their businesses/products/services in order to provide better services and make it easier for people to get finance. One interviewee explained this argument as follows:

“Banks need to be competitive to provide better service, to provide a reason why people would not go to a crowdfunding platform because there’s no commercial, financial benefits of doing that or going there. So that’s the first thing. And then provide easier access to finance for people. And that’s a big change for the banks, because some people feel that they struggle to get finance from banks, which is the whole reason why crowdfunding came about.” (P16)

The interviewees maintained that banks must streamline and simplify their services for customers, to better compete against crowdfunding platforms which leverage technology and the Internet to provide many technology-enabled benefits. As one of the experts expressed:

“Well, banks just need to make things easier and simpler and more streamlined for customers. Making it easy for paperwork and being able to deliver the same sort of service or opportunity as easily, if they can do that successfully, then they can neutralize the potential threat that is crowdfunding, but it’s probably a lot harder for some of those big entities to do that. Banks are big institutions, and they don’t move particularly fast. Banks are likely to struggle to compete with small, nimble, dynamic disruptors that don’t have so many levels of compliance or chain of command to get through. And the banks probably have a bit of a stuck in the mud attitude because they’ve been around forever and have established ways of doing things. Where’s the disruptors have the whole culture of let’s think of a different way of doing things.” (P26)

The above comments by P16 and P26 suggest that banks must streamline and innovate to be competitive, but this may be difficult for banks to do because they are large institutions with rigid structures and stringent regulations to comply with. The experts interviewed also postulated that although banks must continue to invest in technological improvements of their processes to provide better customer service and experience, this should not compromise security and safety of banks, and their role in society as safe custodian of people's money. As one interviewee commented:

“Banks should continue to come up with technology improvements, and improvements in their systems, and make it easier and more comfortable for users [customers], but this is not number one, I think. Number one is that banks are well-known institutions that should be trusted, with high quality of standards. People choose a bank not because of interest rates, banks pay quite small interest for deposits, but simply because they want 100% trust that they will get their money back from their deposit or savings accounts when they need it.” (P12)

Yet another viewpoint that emerged from the interviews is that competition from innovative platforms will cause banks to improve their products and services, which will lead to improved customer services. In the word of two interviewees:

“I think that having competition is always good because that makes everyone up their game.” (P10)

“Competition from platforms is encouraging banks to compete on a level playing field. New competition from platforms I would say is a good thing.” (P3)

However, some interviewees pointed out that banks are limited in what they can do to change or introduce new products due to the Reserve Bank regulations that govern them, and these regulations have become more stringent in recent years. Banks can find ways to improve their

traditional way of doing business, but they must still operate within the banking regulations.

One interviewee explained:

“Banks are a little bit hamstrung by the reserve bank. I haven’t seen banks really with any new investment products that are going to entice investors or savers because they’re kind of constrained by the banking regulations and policies, and of course recently the rules have changed for them. They’re much tighter than they ever used to be. So I think for banks, it’s pretty tough for them to meet crowdfunding or other innovative products coming to the market.” (P9)

In summary, the interpretation of the interview transcripts suggested that banks can respond to PC by strengthening their business and improve their products and services through incremental innovation. Banks must provide better services and make it easier for people to get finance, in order to remain competitive against innovations coming into the industry, such as PC platforms. Banks must streamline and simplify their services for customers, to better compete against crowdfunding platforms which leverage technology and the Internet to offer many technology-facilitated features. Competition from innovative platforms will cause banks to improve their products and services, which will lead to improved customer services and experience. Due to the banking regulations that govern banks, banks are constrained in what they can do to change their existing products and services, even if they would like to strengthen their business model and enhance some of their products and services.

5.6 Chapter conclusion

Definition of PC

Research participants offered different definitions of PC. PC involves a significant number of people – the “crowd” – whereby each person contributes a small amount of money, and pooling funds to purchase or invest in real estate, resulting in collective ownership of property. PC enables ordinary New Zealanders to invest in property. PC involves an entity or scheme for investing in property. PC is buying property-based shares. PC is similar to a property syndicate, and it is internet-based syndication of real estate.

Current state of PC

Interviewees described the current state of PC in New Zealand in numerous ways. PC in New Zealand is in its infancy; it is very small, nascent, in its early stages, immature, undeveloped, and marginalized. PC in New Zealand is considered amateur to non-existent. Although there are several platforms in New Zealand with the FMA crowdfunding licences, interviewees observed that there was very little activity on the platforms, and not a lot was happening on them.

Current limitations or limited functionalities of PC

Interviewees contended that PC platforms in New Zealand are facing numerous challenges. PC platforms lack transparency and full disclosures, and this increases risks for investors. Lack of transparency also impact the trustworthiness and reputation building of platforms. There is a dearth of due diligence analysis on PC platforms. PC platforms managers or employees post projects on the platforms without in-depth due diligence analysis of the risks involved in

complex development finance projects. PC platforms lack the knowledge and expertise required to carry out a careful analysing of a real estate transaction or project. As part of due diligence process, platforms must build strong face to face relationships with project sponsors seeking funding on the platforms to ensure that they are reliable and trustworthy. Detailed information and documentation about projects must be posted on platforms to allow prospective investors to conduct their due diligence. PC platform founders and managers expressed that they need to appraise projects before accepting them on their websites.

PC platforms in New Zealand currently lack clear exit strategies and secondary markets for investors when they want to exit or realize their investments. Because proportional ownership of property is not yet developed or accepted in New Zealand, this is impacting trading in multi-owned properties. Platform founders and managers who were interviewed were concerned about exit strategies on their platforms. There is a need to have a market for the units/shares from crowdfunding investments where people can see the market values of those units/shares, and trade. Exiting crowd funded project can be more complex due to the fact that the timing of the exit must align with the rise and fall of the property market.

There is a lack of scale and diverse properties on PC platforms. PC platforms in New Zealand currently lack scale required to make them successful. PC platforms do not offer investors the ability to invest in a broad range of projects or properties to diversify their investments. Due to lack of scale, PC platforms do not appear to be credible funders to developers. The platforms have not yet managed to build scale on both sides of their market, namely the developers/project owners seeking funding, and the general public (the crowd) who can invest.

PC platforms lack crowds to invest in projects. Developers in New Zealand face a fundamental challenge of how to attract the crowd; how to get New Zealanders interested in, or supportive of their projects, and invest in them. PC platforms have not built communities of investors (the crowd) and borrowers (developers or project owners) on their platforms.

Contextual factors impacting PC in New Zealand

Interview transcripts showed that there are numerous contextual factors impacting the growth of the PC sector in New Zealand. These factors were categorized under several themes, namely construction industry/developers, cultural and behavioural factors, regulatory framework in New Zealand, and population and income.

Property developers, investors, and the construction industry context

Property developers, investors, and the building industry context in New Zealand is hampering the development of PC. New Zealand property developers and platform managers find dealing with the crowd of investors challenging and inconvenient. Developers do not like having to deal with large ‘crowds’ as financiers of their projects. Developers are not likely to use PC platforms to raise finance because they prefer to finance with a single lender, as this is more convenient. Residential developers want to have control of their projects, which they can potentially lose by involving the crowd in financing their projects. Poor reputation of property developers and the construction industry in New Zealand are impacting the PC financing model. Given the number of developers who have collapsed in the past, there is always the risk of that occurring after a crowd of investors have invested their money. Crowdfunding development projects will face challenges because developers in New Zealand are (perceived to be) untrustworthy. Developers are not interested in using PC platforms because if a development fails, many ordinary people would be impacted, and this may tarnish the

developer's reputation. There are many options for financing real estate, and developers do not need to use PC platforms. PC platforms can help financially challenged developers to increase the equity component of their projects, in order to meet the banks' lending criteria.

Cultural/behavioural factors

Cultural and behavioural factors are also impacting PC in New Zealand. PC and its underlying concept of fractionalised ownership of property is not aligned with the Kiwi home ownership mentality. Rather than investing via a PC platform, New Zealanders would rather continue saving up money until they are able to buy their own individual property. Investing through a platform is just like company shares, it is different from directly purchasing or investing in a property. While New Zealanders have a strong appetite for investing in property, they prefer to invest in completed properties (residential and commercial) which have an income stream, and this will impact PC for development projects. Many New Zealanders are not well-informed about financial matters, and this will impact their acceptance of a new financing tool such as PC. New Zealanders do not have a "great investment psyche". While PC promises high returns on investment, the way PC is perceived in New Zealand is influenced by the recent historical context of property investment, as well as investments and subsequent losses in non-bank financial products in New Zealand.

Regulatory framework

Regulatory framework for PC in New Zealand is also shaping the growth of PC in New Zealand, or lack thereof. FMA's \$2 m/annum fundraise cap is hindering the growth of PC in New Zealand. The \$2m cap means that it is not feasible to crowdfund large real estate projects. For developers with large projects, \$2m is not enough to purchase land. The \$2m cap has forced

PC platforms to raise funds for small developers only; deal in small real estate projects only, and focus on the lower end of the real estate finance industry.

Population and income

Population and income factors are also impacting PC in New Zealand. The number of PC projects that can be successfully crowdfunded may be inherently limited by the size of the New Zealand market. Most New Zealanders do not have a lot of discretionary money to invest on the PC platforms. Most New Zealanders' money is tied up in KiwiSaver. The majority of New Zealanders do not understand PC and what it entails, and, as a result, they are not keen to participate in PC projects. Because of New Zealand's small market, PC in the country will remain small, with about two or three key PC platforms in the long term.

Response strategies of incumbents to PC

Data from the interviews revealed that incumbents in the industry can strategically respond to PC through three main ways. First, incumbents can ignore PC because they are in the same industry, different businesses, different markets, and different roles and purposes. PC is a new, unproven, and untested business model; it has no proven record yet, so banks can afford to ignore it, at least in the short-term. PC is still small, has not achieved scale, focuses on the lower part of the market, and does not present any threat to incumbents. PC platforms may present reputational risks and contagion risks to the incumbents such as banks.

Second, incumbents may collaborate with PC platforms because platforms are an adjacent business for banks, they offer a solution to equity financing in the capital stack. There is a complementary relationship between platforms and banks, they both finance property's capital

stack. Incumbents should get involved with PC platforms early on to learn about it and analyse its potential, without investing large amounts of capital. Collaboration between incumbents such as banks and PC platforms can help platforms to gain credibility and trust in the market, although there may be risks associated with this collaboration for banks.

Third, incumbents may respond to the emergence of PC by strengthening their business model, products and services. Banks must provide better services and make it easier for people to get finance, in order to remain competitive against innovations coming into the industry. Banks must streamline and simplify their services for customers, to better compete against PC platforms which leverage technology and the Internet to provide several advantages. Although banks must continue to invest in technological improvements of their processes to provide better customer service and experience, this should not compromise security and safety of banks. Competition from innovative, platform-based competitors will cause banks to improve their products and services, which will lead to improved customer services and experience.

The following chapter will discuss these findings, using the literature, and engaging with the initial conceptual framework presented in Chapter 2, and the study's research questions.

Chapter 6 Discussion: Property crowdfunding in New Zealand

6.1 Chapter introduction

As presented in Chapter 1, the goal of this study is to create a comprehensive understanding of PC in New Zealand, specifically: how PC is defined; PC's current state, limitations of PC platforms, contextual factors impacting PC uptake and growth, and response strategies of incumbents in the real estate project finance industry towards PC.

The overarching research question of this study is: *What challenges and contextual factors are affecting property crowdfunding in New Zealand, and how may the real estate project finance industry strategically respond to property crowdfunding?* Five sub-research questions were set to answer the overarching research question of the study more effectively. These are restated below:

1. *What is property crowdfunding?*
2. *What is the current state of PC in New Zealand?*
3. *What are the current limitations of property crowdfunding in New Zealand?*
4. *What contextual factors have influenced the development of property crowdfunding in New Zealand?*
5. *How may the real estate project finance industry strategically respond to property crowdfunding?*

This chapter gives answers to the five sub-research questions by discussing the study findings presented in Chapter 5 using the literature reviewed in Chapter 2.

This discussion chapter is structured as follows. Sections 6.2 to 6.6 discuss the findings for each of the five sub-research questions of this study. Section 6.7 describes and discusses how platforms in successful overseas PC markets avoided or overcame the challenges currently faced by PC platforms in New Zealand. Section 6.8 describes and discusses the future outlook of PC in NZ, drawing from experience and knowledge of research participants in this study. Section 6.9 presents the amended conceptual framework of PC in New Zealand, based on the data from interviews. The revised framework also advances recommendations for how to successfully tackle and solve the problems which PC platforms in New Zealand are currently facing. Lastly, Section 6.10 closes the chapter.

6.2 Definition of property crowdfunding

The first sub-research question is: *What is property crowdfunding?* As presented in Chapter 5, research participants offered various definitions of PC: PC involves a substantial number of individuals – the “crowd” – whereby each person contributes a small amount of money and pooling funds to purchase or invest in real estate, resulting in collective ownership of property. PC enables ordinary New Zealanders to invest in property. PC involves establishing an entity or scheme for investing in property. PC is buying property-based shares. PC is similar to a property syndicate, and it is Internet-based syndication of real estate.

Definitions of PC are consistent with FMA’s definition

The definitions of PC offered by the participants are in accordance with FMA’s definition of PC, which states that it involves raising funds to invest in real estate, as presented in Chapter 2. The definitions of PC offered by the research participants are also in line with the FMA’s

definition of the broader concept of crowdfunding, which states that it involves contributing small amounts of money and buying shares, as presented in Chapter 2.

Definitions of PC are in line with definitions in the literature

The definitions of PC suggested by the research participants are also consistent with the definitions in the extant literature. As part of the broader crowdfunding sector, the participants' definitions captured key features of crowdfunding, namely that it involves a large number of people, or a 'crowd', who make small contributions towards a particular project, as stated by Mollick (2014). The research participants defined PC as involving a large group of people financing or investing in real estate projects together, and this is consistent with scholars who have described PC as a tool that connects developers or project owners with the "crowd" who finance or invest in the projects (Baldwin, 2017; Schweizer & Zhou, 2016). Interviewees described PC as buying shares in a property, and this matches Schweizer and Zhou (2016) who argue that PC involves the sell and purchase of shares in a real estate project or company. The interviewees' definitions also highlighted co-ownership of real estate, and this is in line with Maarbani (2015) who described PC as collective purchasing and joint ownership of property. The participants' definitions of PC as Internet-based syndication of real estate is in accordance with Belleflamme et al. (2014) who highlight the use of the Internet to raise finance in crowdfunding, thereby directly connecting those seeking funding with funders.

Participants' definitions of PC did not capture some aspects of PC in the literature

Although the definitions of PC offered by the research participants did capture the key elements of PC as defined in the extant literature, a few elements were not mentioned in the participants' definitions.

- *PC as an online market place*

For example, while prior research has described PC as online marketplaces which facilitate financing real estate by linking real estate developers who want to raise capital for their projects, and general public investors who can provide that capital (Schweizer & Zhou, 2016; Srovnalikova & Ditus, 2016), the ‘marketplace’ aspect of PC was not captured in the participants’ definitions. This may be due to the fact that PC platforms in New Zealand are relatively new, immature, small, and unknown; and, as a result, they currently have very little activity on them, and therefore cannot be characterized as ‘marketplaces’. As mentioned previously in this thesis, the first platform to gain a PC FMA-licence, namely Fulqrum, later lost the licence and stopped operating due to a lack of activity on the platform. PC platforms in New Zealand are struggling to create active, busy and vibrant ‘marketplaces’ for crowdfunding real estate. Also, when the interviews were conducted, PC platforms’ founders were promoting their platforms and educating the New Zealand public about PC, and this suggests that PC platforms in New Zealand may be a long way from being active and busy online ‘marketplaces’ for real estate financing and investing.

- *PC as a disruptive innovation*

In the extant literature, PC has been described by some scholars – primarily based on the successful performance of PC in overseas markets such as USA and UK – as an innovation with potential to impact or disrupt the property project finance industry (e.g., Cannon, 2014; Vogel & Moll, 2014). However, in this study, the interviewees did not raise the element of a potentially impactful innovation in their definitions of PC. This reflects the nascent state of PC in New Zealand, and the rather very slow growth it has so far achieved. This suggests that PC may not have a notable impact in the industry in New Zealand, at least in the short term.

Further, while Mitra (2012) characterized PC as an innovation that may disintermediate traditional financiers such as banks, interviewees' definitions of PC did not suggest this.

This study advances additional commentary and clarification for PC

In Chapter 1, different definitions of PC that exist in the literature (e.g., Baldwin, 2017; Schweizer & Zhou, 2016) were reviewed and synthesized to develop a working definition of PC for this study. Building on the original working definition of PC presented in Chapter 1, and based on the definitions of PC offered by the research participants, this study provides additional commentary and clarification for PC as follows:

Property crowdfunding (PC) is the practice of financing a real estate project by raising and aggregating funds from many people (i.e., the “crowd”), through the Internet. PC is both a financing and investment tool: it enables property developers or property project owners to raise funds from the crowd, and, it allows ordinary people to invest in property, acquire property-based shares, and earn some returns. PC involves co-ownership of property whereby all the people who invested are co-owners of the property or project. Property crowdfunding is a service that is facilitated by a licenced third-party crowdfunding platform which acts as an intermediate between property developers or project owners raising funds, and the investors/crowd financing the projects. Legal companies are typically established for the purposes of investing the crowdfunded funds into specific properties or projects. PC is also an alternative finance that is different from traditional finance, for example, banks and capital markets.

The additional commentary and clarification for PC presented above is consistent with definitions of PC in the extant literature by Baldwin, (2017), Maarbani (2015), Srovnalikova and Ditkus (2016), and Schweizer and Zhou (2016). The commentary also aligns with FMA's definitions of PC and crowdfunding, as presented in Chapter 2. The numerous definitions of

PC suggested by the research participants, which led to further explanation and clarification of PC presented above, answered the first sub-research question for this study, as stated at the beginning of this section.

6.3 Current state of property crowdfunding

The second sub-research question is: *What is the current state of PC in New Zealand?* Research participants described the current state of PC in New Zealand in numerous ways, namely, PC in New Zealand is in its infancy or early stages; it is very small/microscopic and nascent. It is immature, undeveloped, marginalized, amateur and effectively non-existent.

PC in New Zealand is still a young industry

Although there are PC platforms in New Zealand with the FMA-issued licences, interviewees observed that there was very little activity on the platforms. It is essential to note, as background, that the current state of PC in New Zealand, as described by the research participants, is consistent with the fact that PC was introduced eight years ago; with the issuance of the first PC licence in November/December 2016 for Collinson and Fulqrum. Further, the Covid-19 pandemic caused a two-year interruption on business operations. Although PC platforms are online businesses, they were impacted by Covid. When the pandemic began, PC platforms had been holding regular face-to-face seminars to educate the public, gain trust, and promote their platforms. Due to the pandemic, all seminars were halted. Because PC is still nascent, the platforms needed these face-to-face seminars and interactions to progress. Therefore, the PC sector has had five-six years of uninterrupted operations.

Establishing and growing a new business, particularly one centred around a new innovation, can require several years. The way PC platforms were impacted by Covid also raises a question: Is face-to-face interaction with platform users critical for PC platforms even though they are online-based? Future researchers can examine to what extent online-based PC platforms can enter a market and grow while being exclusively online. Future scholars can extend this study by examining online vs. face-to-face investing using the case study of NZ PC. This would be important given the poor reputation of the NZ non-bank financial sector (Mayes, 2015), as outlined earlier in the thesis.

Descriptions of the current state of PC are supported by the literature

The interviewees' descriptions of the current state of PC as microscopic, immature, and undeveloped are in line with DIT literature which posits that potentially disruptive business models typically start small and undervalued by players and customers in the main market (Christensen, 1997; Christensen & Raynor, 2003; Denning, 2016; Si & Chen, 2020). According to DIT, when an innovative product, service, or business model enters a market, it goes through a long and gradual process from introduction into the market, to being accepted, and potentially having an impact in the market (Christensen et al., 2015; Gilbert, 2003; Martinez-Vergara & Valls-Pasola, 2020). The process may take years, even decades before the new innovation has an impact on the mainstream market (Christensen & Rayonier, 2003; Si & Chen, 2020). Therefore, while the interviewees considered PC in New Zealand to be currently microscopic, immature, and undeveloped, this is because it is relatively new; it may take years for it to grow and have some impact in the industry.

PC is in initial market entry stage

The interviewees' characterization of PC is based on what they have observed during the early years of PC being introduced in New Zealand. Drawing from the DIT literature, it seems that PC is currently in phase one, namely initial market entry (Christensen et al., 2002; Van Orden et al., 2011). The data showed that PC platforms are currently focusing on small-scale developers who are likely to have difficulties borrowing from, and meeting the lending criteria of banks. This is consistent with the extant literature which posits that, during their initial market entry, new innovations target consumers in the lower end of the market whose needs have been neglected by the large mainstream players, and/or have minimal demands, and are prepared to use the new service or product in its current (inferior) state (Christensen et al., 2002; Ho, 2022; Sood & Tellis, 2011).

PC platforms struggling to successfully commercialize their services

Interviews data suggest that PC platforms have been struggling to successfully commercialize in the lower end of the market into which they were launched beginning in 2016 with Fulqrum and Collinson Crowdfunding, followed by others such as The Property Crowd in subsequent years. This suggests that PC platforms may fail, or take a long time, to progress into DIT's phase two, namely main market entry, whereby, after successfully improving their quality and performance, they may begin to attract customers from the middle segment of the market, and start to grow (Christensen, 1997; Si & Chen, 2020). The DIT literature states that, for a new innovation to succeed and eventually impact or disrupt a market, it must first successfully commercialize its technology/product/service when it is initially introduced in the lower segment of the market (Christensen et al., 2002; Martinez-Vergara & Valls-Pasola, 2020). As

discussed in the following Section 6.4, PC platforms in New Zealand currently have numerous limitations. While this is understandable because the platforms are still relatively new, it also raises the question whether the platforms will actually be able to address these limitations, so that the PC sector can grow from the current state of being microscopic, immature, and undeveloped, and get to a level where PC can have an impact in the industry.

Building trust, legitimacy and reputation

This study also found that PC platforms are struggling to become trustworthy investment and financing tools because of their newness in the market. This is in accordance with prior research by Frydrych et. al. (2014) and Kwak et al. (2019) which found that Internet-based, platform type of businesses can struggle to build legitimacy and become accepted in a market. This is also in line with prior research on building reputation of young entrepreneurial firms, which found that new and young entrepreneurial firms require reputation and legitimacy in order to survive and grow, and that these firms usually struggle with reputation building (e.g., Petkova, 2012; 2016; Petkova et al., 2008; Zimmerman & Zeitz, 2002). Overall, this study's findings about the current state of PC in New Zealand are supported by the DIT literature and organizational legitimacy and reputation building literature, as presented above.

Current state of PC in other countries

The analysis of PC's current state in New Zealand builds on prior studies that have examined PC in other jurisdictions. For instance, Garcia-Teruel (2019) studied PC in Spain and found that although the PC sector in Spain is relatively small compared to the USA, there are ten PC

platforms that are successfully operating in the country. Bogdanova (2018) investigated PC in Finland and reported that although the PC sector in Finland is still relatively young, it is growing rapidly, supported by strong demand for non-bank finance owing to financing gap in the market, and the general public's strong interest in real estate investing. Tang (2019) examined PC in China and concluded that the PC sector in China, which started in 2014, is relatively nascent compared to mature USA and UK markets, but is projected to grow significantly in the future. At a global level, the PC industry is still relatively new. In order to build global knowledge about PC, studies on PC in different jurisdictions must be conducted, and this study contributed towards this, by focusing on the hitherto unresearched context of New Zealand.

Market sizes of PC

In order to put into context the current state of PC in New Zealand as described by the research participants, it is important to indicate the market sizes of PC in overseas mature markets, and compare that with New Zealand. The global PC market is currently estimated to be US\$250 billion (Massolution, 2015). In the United States, the four largest PC platforms are Fundrise, RealtyMogul, CrowdStreet, and Patch Lending, and these have achieved significant growth during the past decade. Fundrise, which was founded in 2010, has to date crowdfunded US\$7 billion worth of property transactions as of June 2022 (Fundrise, 2022). Realty Mogul, which was founded in 2012, has so far crowdfunded \$4.7 billion worth of property (Realty Mogul, 2022). CrowdStreet, which was founded in 2013, has thus far crowdfunded US\$3.5 billion for property projects, as of August 2022 (CrowdStreet, 2022). Patch Lending, a platform established in 2012, has to date facilitated crowdfunding of transactions worth \$1.5 billion (Patch Lending, 2022).

In the UK, LendInvest, one of the leading PC platforms founded in 2008 has thus far facilitated crowdfunding of £3 billion of mortgages/loans. Property Partner, another leading PC platforms in the UK, has crowdfunded £140 million worth of property. In Europe, EstateGuru, one of the largest platforms which was founded in Estonia in 2013, has to date crowdfunded £626 million worth of real estate transactions (EstateGuru, 2022). The platform has expanded beyond Estonia, and now operates in Latvia, Lithuania, Spain, Germany, Sweden and Finland, and is working on establishing operations in the UK, Ireland and Portugal (EstateGuru, 2022). Rendity is another leading European PC platform founded in 2015 in Austria, and has to date crowdfunded £120 million worth of real estate loans (Rendity, 2022). The above mentioned examples suggest that the global property crowdfunding market is very large, and PC platforms in markets such as USA, UK, and Europe are large and mature, as they have achieved significant growth during the past decade.

By comparison, PC in New Zealand is microscopic. Based on feedback from research participants, and secondary data, the current potential demand market size of PC in New Zealand is estimated to be \$14 million per year. The market demand reflects the total value of PC projects that have been brought to the market, and have sought crowdfunding from the general public. However, due to various factors that have been uncovered in this study, most of these projects were not successfully crowdfunded, or failed to raise the maximum amount sought. It is noteworthy that this is a very conservative estimate of the market demand size because there is still a lack of awareness of PC in New Zealand. There has not been a consistent and coherent marketing strategy to promote PC in New Zealand, and it remains largely unknown. It was noted when conducting interviews that a few of the platforms had approached only a handful of developers to promote their platforms. This suggests that with more

promotion of PC to developers, and educating of the New Zealand public, the PC market demand size can be significantly larger, especially if the current limitations identified in this study are addressed. Nevertheless, the estimated current potential demand market size of \$14 million per year indicates that PC in New Zealand is indeed very small and in its infancy, as described by the research participants in Chapter 5. The fundamental fact is: there is demand for crowdfunding finance for real estate in New Zealand; but, several factors, as presented in the following Sections 6.4 and 6.5, have hampered the ability of PC platforms to successfully meet this demand.

In summary, PC in New Zealand is in its early stages and microscopic. Further, a comparison of PC in overseas mature markets, and New Zealand, indicates that the industry in New Zealand is in its early phases and very small. This study findings, which uncovered the current state of PC in New Zealand, answered the second sub-research question for this study, as stated at the beginning of this section.

6.4 Limitations of property crowdfunding platforms

The third sub-research question is: *What are the current limitations of property crowdfunding in New Zealand?* As presented in the previous Chapter 5, data from interviews suggest that PC platforms in New Zealand face several limitations and challenges, namely, lack of: (a) transparency, (b) due diligence, (c) exit strategies and/or secondary markets, (d) scale and diverse properties, and (e) “crowds” of investors ready to invest in projects posted on the platforms.

Limitations of PC platforms are consistent with the literature

The limitations of New Zealand PC platforms identified in this study are consistent with the extant DIT literature on characteristics of new innovations/technologies which posit that, when new innovative products or services are launched in a market, they usually have some weaknesses; they typically have limited functionalities or less-than-perfect performance, compared to products or services offered by established incumbents in the same market (Bower & Christensen, 1995; Christensen, 2006; Ho, 2022; Wessel & Christensen, 2012). They also fail to meet the performance characteristics that are valued by or important to mainstream consumers in the market (Christensen, 1997; Ho, 2022; Obal, 2013). The findings of this study are also in agreement with the extant literature on challenges of crowdfunding as an online-based business model in general, which include high risks of information asymmetry and lack of due diligence (e.g., Gabison, 2014).

This study also found that some PC platforms posted projects on their platforms, but they failed to get funding, partly because platforms and developers do not provide detailed information about the projects, among other reasons. This finding is in accordance with a prior study by Frydrych et. al., (2014) which found that projects seeking to crowdfund must show organisational and project legitimacy by sending legitimating signals that ensure crowdfunding success, such as providing detailed information about the organization, the project seeking funding, and the management team. The finding about lack of full information disclosures on PC platforms supports prior research by Ahlers et al. (2015), Courtney et al. (2017) and Mollick (2014) which argued that crowdfunding platforms are characterised by information asymmetries; they are fraught with concerns about information availability and full information disclosures.

Participants did not raise issues of money laundering and terrorism financing on platforms

Although the literature showed that platforms can have high risks of money laundering and terrorism financing (Hidajat, 2020; Teichmann, 2022), participants in this present study did not raise these issues. This is probably because New Zealand PC platforms are not yet active, and do not have many transactions being completed. Although the New Zealand AML/CFT Act is designed to prevent money laundering and terrorism financing (as described in section 2.4.4.), the effectiveness of the Act on PC platforms is yet to be tested. Once PC platforms become busy with large volumes of transactions, it may be necessary to examine the effectiveness of the Act's anti-money laundering and anti-terrorism financing measures on PC platforms.

Only small-scale developers would use PC platforms

This study found that only small-scale and/or financially challenged developers struggling to get finance from banks may consider using PC platforms. After the GFC, there was a shortage of real estate finance as banks became risk-averse to financing real estate (Baldwin, 2017; Parr, 2017). Particularly, SME real estate developers struggled to meet banks' stricter lending criteria, and this led to the emerge of PC to address the gap in finance (Goins, 2016). PC platforms have been targeting small, or financially challenged developers who may have difficulties raising equity and/or meeting banks' lending criteria. This is in accordance with the DIT literature which states that new and potentially disruptive innovations typically target lower end or marginal customers, or those whose needs have been overlooked or neglected by established firms in an industry (Christensen, 1997; Ho, 2022; Martinez-Vergara & Valls-Pasola, 2020). Further, new innovations typically target consumers who are not appealing to

leading incumbent firms in the market (Hwang & Christensen, 2008). Therefore, this study's findings are consistent with the above-mentioned prior DIT studies.

PC platforms not appealing to large developers

Due to numerous limitations, so far, PC platforms are not appealing to major customers in the real estate project finance industry, i.e., large developers or real estate companies. The limited functionalities of PC platforms have made them unattractive to large developers who can easily borrow from banks and/or institutional non-bank lenders. This is consistent with Christensen et al. (2015) who argue that “disruptive innovations don’t catch on with mainstream customers until quality catches up to their standards” (p.5). If PC platforms fail to address their current limitations, PC may fail to have any impact in the industry. This is because, according to DIT, in order for new innovations to impact or disrupt a market, they must gradually address their limitations so that they can successfully compete against products or services offered by incumbents in the main market (e.g., Husig et al., 2005; Myers et al., 2002). This steady improvement in performance then enables the new innovations to grow, gain new/more customers, and start to move upwards into the main market, impacting or disrupting incumbent firms (Christensen, 1997; Christensen & Bower, 1996; Denning, 2016). The new innovation’s functionalities and performance must improve, so that it can become attractive to the mainstream customers who at first avoided or dismissed it (Schmidt & Druehl, 2008). More improvements help the innovation to move from appealing to only the original niche or under-served consumers, to finally satisfy mainstream customers (Yu and Hang, 2010). Christensen (1997) defined disruption as “a process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors” (Christensen, 1997, p.1). Following its initial market entry

in 2016, whether PC will progress into the mainstream market, or not, remains to be seen, but evidence suggests that if PC platforms fail to address the limitations identified in this study, PC may fail to progress in the market.

PC platforms offer a new feature in real estate project financing

Leveraging information technology and the Internet, PC platforms offer a new feature, namely raising real estate finance online easily, and small-scale or financially challenged developers would appreciate or value this feature. This conjecture is supported by previous studies which suggest that new innovations/technologies usually have a new, additional, and unusual feature or characteristic which is not currently offered by incumbents (Adner, 2002; Christensen, 1997). The literature states that this new characteristic usually appeals to a limited number of customers in the market, usually low-end or fringe customers (Christensen, 1997; Christensen & Raynor, 2003).

Limitations of PC platforms in other countries

This study's findings on limitations of PC platforms in New Zealand complement previous studies that have identified some limitations of PC platforms in other countries such as Finland (Bogdanova, 2018), Spain (Borrero-Dominguez et al., 2020; Garcia-Teruel, 2019), and China (Tang, 2019), among others. For instance, Garcia-Teruel (2019) studied five PC platforms in Spain and reported that although the platforms have been previously struggling with liquidity and exist issues, three out of the five platforms had already established their secondary markets, thus successfully solving the liquidity issue. A study of PC platforms in Finland by Bogdanova (2018) found that some platforms have been developing their own secondary markets for their

platforms, in order to address liquidity issues. The key observation from these studies, and from visiting the websites of PC platforms in mature overseas PC markets, is that overseas PC platforms are working continuously on addressing, and are successfully resolving the key limitations of PC platforms such as those currently impacting New Zealand PC platforms.

It is important and pertinent to note that, Schweizer and Zhou (2017) examined PC platforms in USA and reported that although the platforms are mature and successful; provide very detailed information on projects seeking funding, and provide high returns for investors, there were still a few information asymmetries between investors and project owners on platforms, which still needed to be improved. The fact that PC platforms in the USA, which have been operating for more than ten years, and have successfully crowdfunded billions' worth of property transactions (as mentioned in the previous Section 6.3), still need to improve their information disclosures, suggests that building successful PC platforms is a long, gradual, and continuous process, requiring constant improvements. This indicates that, while New Zealand PC platforms are currently facing numerous limitations, this does not mean that they cannot address and overcome these limitations in the future, and eventually succeed.

This also suggests that some of the identified challenges affecting New Zealand PC platforms are not entirely unique or unsolvable. The future success of New Zealand PC platforms is contingent upon addressing the limitations identified in this study. During the next few years, the PC sector, or at least some of the PC platforms, may potentially grow, evolve, and have an impact in the industry. However, whether PC will be fully accepted in New Zealand, and the pace at which it will grow, and potentially impact the industry, is dependent on whether PC platforms will address the current limitations of PC platforms. Section 6.7 and Chapter 7

present suggestions on how PC platforms can address the challenges they are currently facing. Section 6.8 will present the future outlook of PC in New Zealand.

In summary, the findings on the limitations of PC platforms in New Zealand are supported by DIT literature, as presented above. Further, since to date no scholarly attention has been given to limitations of PC in New Zealand, this study addressed this knowledge gap. This research extends the few prior studies that have investigated limitations of PC platforms in other countries such as Finland (Bogdanova, 2018) and Spain (Borrero-Dominguez et al., 2020; Garcia-Teruel, 2019). This study uncovered the limitations of PC platforms in New Zealand, and therefore answered the third sub-research question set for this study, as stated at the beginning of this section.

6.5 Contextual factors affecting property crowdfunding platforms

The fourth sub-research question is: *What contextual factors have influenced the development of property crowdfunding in New Zealand?* As presented in Chapter 5, this study found that numerous contextual factors are impacting the growth of the PC sector in New Zealand, categorised as (a) property developers, investors, and the construction industry, (b) cultural and behavioural factors, (c) regulatory framework for PC, and (d) population and income factors.

The construction industry and preferences of developers

The study found that the construction industry and developers are impacting the development of PC in New Zealand. The construction industry has had a poor reputation because of failed projects; investors or home buyers losing money, and sub-standard or leaky developments, and

this is affecting the PC model. Further, developers prefer to finance with a single lender, as this is more convenient for them, and they want to have control of their projects, which they lose when they raise capital from the ‘crowd’. Prior research suggests that the national institutional context in which a new innovation is introduced influences the growth and impact the innovation may have (Chesbrough, 1999b). Institutions include industries or businesses in a country (Greif & Laitin, 2004), and Seabrooke and Hebe (2004) state that institutions in the real estate industry include specific groups such as developers. The construction industry in New Zealand, and the behaviours and preferences of developers, have affected the uptake of PC in New Zealand. Therefore, this study’s findings are supported by extant literature.

Regulatory framework of PC in New Zealand

The study found that the FMA’s crowdfunding regulation which stipulates that a developer can only raise \$2 million/year from a platform has hampered the growth of PC in New Zealand. This is in line with the extant literature which posits that variations in legislative and regulatory frameworks between countries can cause the same innovation to have different impacts in different countries (Chesbrough, 1999b; Pinkse et al., 2014; Urbinati et al., 2018; Yu & Hang, 2010). Government policy impacts innovation activity in industries because laws and regulations which a government introduces may foster or suppress new innovations, which subsequently determine the growth and disruptive potential of new innovations (Gui et al., 2018; Ruan et al., 2014). Different regulations in different countries impact how new innovations can successfully enter new markets and grow, or fail to do so (Huesig et al., 2014; Steinhäuser et al., 2020). The \$2 million cap seems constrictive, especially considering the high property prices in New Zealand.

PC platform founders and managers stated that FMA compliance requirements are hindering the growth of their platforms. This finding is in accordance with previous research which has shown that regulatory and operational compliance requirements for new innovations determine whether there is an enabling environment that allows the introduction and growth of these innovations, and stringent compliance requirements may hinder innovations' entry and growth (Hang et al., 2011; van den Broek & van Veenstra, 2018). This finding raises the question whether the New Zealand government (i.e., the FMA) needs to review the compliance requirements and also consider taking some measures to encourage PC growth in New Zealand, especially given the potential role PC can play in addressing housing challenges in New Zealand, as discussed later in Section 6.8 and Section 7.6. This is because the extant literature posits that some new innovations or innovative business models require governments to proactively introduce regulations, infrastructures and measures that can support these innovations to enable them to grow and gain credibility, particularly in the early stages (Delemarle, 2014; Pinkse et al., 2014). Regulators can assume a forward-thinking approach of proactively formulating regulations that support the growth of disruptive innovations, and ensure their success (Antonio & Kanbach, 2023). Introduction of policies, measures and incentives that encourage and protect new innovations in their early phases can influence the growth, and impact the innovations may have (Havighurst, 2008; Pinkse et al., 2014). This study found that initiatives such as these suggested in the literature have not yet been implemented in New Zealand, to try and assist PC to grow. Suggestions for improving PC legislation are presented in Chapter 7.

Cultural and behavioral factors are affecting PC

The study also found that cultural and behavioral factors are impacting PC uptake in New Zealand. New Zealanders are not interested in fractionalised ownership of property because it is not aligned with the Kiwi home ownership mentality since the feeling of real ownership of a home or investment property is lost. Further, while New Zealanders have a strong appetite for investing in property, they prefer to invest in completed properties which have an income stream, and this will impact PC for development projects. Furthermore, New Zealanders do not have a “great investment psyche” and are not keen on investing via PC platforms, as they prefer to keep their savings in the bank. These findings are consistent with extant literature which posits that behavioural and cultural factors in a particular context influence the performance and uptake of a new innovation in that context (Chesbrough, 1999b; Yu & Hang, 2010).

Although it is still early stages, and the PC sector has not yet begun to promote PC more consistently in the market, the way PC platforms have so far struggled to gain traction seem to suggest that there may be a rejection of PC in New Zealand. This is consistent with prior studies which suggest that targeted markets or customers in certain contexts may resist or reject innovative products or services, or they may oppose the changes the innovations may bring, and this impacts the uptake and growth of the innovation in that context (Konig et al., 2012). A lack of knowledge about PC among New Zealanders probably also explain the lack of interest in, and acceptance of PC.

Population and income factors are affecting PC

The study also found that population and income factors are also impacting PC in New Zealand. The number of PC projects that can be successfully crowdfunded may be inherently limited by the size of the New Zealand market. Most New Zealanders do not have a lot of discretionary money to invest on the PC platforms, and most New Zealanders' money is tied up in KiwiSaver. The finding that the number of PC projects that can be successfully crowdfunded may be limited by the size of the New Zealand market is consistent with previous research which suggests that market size; targeted customers' characteristics, economies of scale, and cost advantages, can also influence new innovations entering new markets (Havighurst, 2008; Urbinati et al., 2018).

PC has not (yet) impacted the real estate project finance industry in New Zealand

The way PC has so far performed in New Zealand is contrary to scholars and industry commentators who posited that PC will impact or disrupt traditional financiers of real estate such as banks (e.g., Cannon, 2014; Crowe, 2016; EY, 2016; Goins, 2014; Rutter, 2014; Vogel & Moll, 2014). Similarly, Baum (2017) contended that the property industry is likely to be affected, changed, or disrupted by innovative technologies, products, or services, such as PC, among others. Further, drawing from examples of innovative business models and service providers which entered some industries such as taxi and hotel industries, and disrupted traditional businesses, some industry analysts argued that the property finance industry was also likely to get disrupted (e.g., Chapnick, 2014). While PC grew in other markets such as UK and USA and had some impact in the respective markets, in New Zealand, PC has not (yet) had any impact, because of various factors identified in this study.

In summary, by investigating how contextual factors in New Zealand – a hitherto unexamined context – impact PC, this study extends the literature on contextual factors that impact new innovations (e.g., Antonio & Kanbach, 2023; Chesbrough, 1999b; Huesig et al., 2014; Pinkse et al., 2014; Urbinati et al., 2018). By uncovering a wide range of contextual factors impacting PC in New Zealand, this thesis has addressed the fourth sub-research of this study.

6.6 Response strategies of incumbents to property crowdfunding

6.6.1 Ignore property crowdfunding

The fifth sub-research question is: *How may the real estate project finance industry strategically respond to property crowdfunding?* Data from the interviews suggested that incumbents in the industry can strategically respond to PC in three main ways: (a) ignore PC, (b) collaborate with PC platforms, and (c) strengthen own business model, products and services.

PC platforms are new, small, and unproven

The research found that PC platforms are not only relatively new and small, but also struggling to grow, and this justifies incumbents to ignore them. PC is a new, unproven, and untested business model; it has no proven record yet, so banks can afford to ignore it, at least in the short-term. These findings are consistent with previous research which argued that incumbents usually prefer to wait until the new innovation is proven, and the market is large enough to be worthwhile or interesting (Danneels, 2004). The growth rate of a new innovation influence

incumbents' motivation to react (Charitou & Markides, 2003; Christensen, 1997). Prior research posits that incumbents may ignore a new innovation because responding to an emerging innovation that has not yet proved to be impactful in a market is nearly impossible (Gans, 2016). Incumbents cannot accurately forecast new innovation's market size due to the newness of the product or service (Christensen, 2007). Ignoring a new innovation entering a market is an apt response because entrant innovations sometimes fail to take off and grow; or typically grow to own only a small market share, and do not completely take over the market, or change the traditional way of business (Charitou & Markides, 2003; Denning, 2016).

There is a lack of knowledge about PC

The data suggests that PC's growth in New Zealand has been hindered by lack of knowledge about PC as an investment and finance tool, and this will limit its growth in the short term. The common view among research participants was that a concerted effort by the sector is required to educate New Zealanders about PC, and raise its profile as a financing and investment tool. The PC sector has not yet done this. This makes ignoring PC the most logical response strategy. This is in line with previous research which states that well-established incumbents in an industry do not consider new, emerging markets a valuable source of growth because they are usually unknown and small (Charitou & Markides, 2003; Christensen, 1997). Slow growth rate and small market size of a new innovation make it an unwise decision for incumbents to allocate resources towards strategically responding to the innovation (Christensen & Bower, 1996).

PC is not yet a threat to the real estate project finance industry

The study found that because PC is not yet a threat, incumbents are not motivated to respond. This is in accordance with prior studies that postulate that the level of threat which a new innovation presents to the incumbent's business influence its motivation to react (Charitou & Markides, 2003; Dewald & Bowen, 2010). If incumbents consider a new innovation to be a serious threat for their operations, they will be highly motivated to strategically respond (Charitou & Markides, 2003; Radnejad et al., 2022). However, it can be difficult for incumbents to establish with certainty the threat a new innovation may potentially pose, thereby causing them to fail to respond in a timely manner (Christensen, 2007). Currently, incumbents have doubts about PC. Although the PC sector appears to be currently unpromising, there is potential for its growth in the future, as discussed in Section 6.8.

The study also found that, currently, PC platforms are targeting small and/or financially challenged developers, and therefore they do not pose a threat to banks. This justifies incumbents' decision to ignore PC. This is in line with the extant literature which states that due to the initial insignificant size of the market in which the new innovations are usually first introduced or commercialized, incumbent firms tend to ignore them because they are not large enough to capture the interest of the incumbents (Christensen, 1997; Martinez-Vergara & Valls-Pasola, 2020). Banks can ignore PC because it does not threaten their business. This is consistent with previous studies which state that when a new innovation does not threaten the incumbent's core business, it is adequate to simply monitor it (Christensen et al., 2018; Raffi & Kampas, 2002). Because incumbents are well-established, they can afford to "buy time" and "wait out" the new innovations, and make the appropriate response on their own timeline, if/when the new innovations have proved themselves (Gans, 2016). Even if PC grows in the

future, PC can exist in the financial ecosystem without posing any threat to banks. If banks respond to PC too early before it proves itself, this may turn out to be a waste of resources in the long term if PC fails to grow or have an impact in the industry.

Banks and PC platforms have different roles in financing real estate

The study found that banks and platforms play different roles in financing property, they occupy different areas in the capital stack of a property development project, namely debt and equity. Further, due to FMA cap of \$2m/year for developers, platforms can finance only small projects, thus, platforms and banks serve different segments of the market. This means that although PC is in the banks' industry, it is not in their market or business. These findings are in accordance with prior research by Charitou and Markides (2003) who found that a new entrant may introduce a new innovation into an industry without impacting the businesses of established incumbent firms in that industry because the new innovation may be in the incumbent's industry, but not its market. According to prior research, incumbents who choose this response strategy are of the view that although the innovation is in their market, it is not in their business (Charitau & Markides, 2003). PC platforms are currently focusing on small-scale developers, and it is not yet certain whether this will change, because an amendment of PC legislation would be required. Some innovations may grow to control only a small portion of the market; they do not completely take over the market, or change the traditional way of business (Charitou & Markides, 2003). Even if PC is successful in the future, it is not going to affect the incumbent's business.

Banks and PC platforms have a complementary strategic relationship

Data also suggested that PC platforms are strategically related to bank's business in a complementary way, rather than a competitive way, thereby justifying the response strategy of ignoring PC. This is consistent with extant research which postulates that strategic relatedness between incumbents' business and new innovation's business influence incumbents motivation to respond (Charitou & Markides, 2003). If a new innovation is strategically related to the incumbent's business, particularly in a competitive way, the incumbent will be motivated to react (Charitou & Markides, 2003).

Risks of ignoring PC platforms

Although ignoring PC currently seems to be the most logical strategy, PC has potential to grow in the future, as discussed in Section 6.8. This, then raises the question whether banks – as large organizations – will have the ability to strategically respond to PC in a timely manner if or when PC grows in the future. Prior research has shown that organizational and managerial failures, specifically core rigidities and cultures of the organization, can cause incumbents to dismiss or ignore new innovations, some of which may prove to be potentially disruptive in the long term, often to their own detriment, as exemplified by “how Kodak missed the digital photography revolution” (Lucas & Goh, 2009, p. 46). Furthermore, waiting too long to respond means that as the new entrants improve their technology/product/service, they “may become too strong to beat or too expensive to acquire” (Gans, 2016, p. 88). Obal (2013) argues that incumbents tend to be slow and are routinized, while new entrants with disruptive technologies are flexible and opportunistic. Thus, it may not be easy for banks to quickly respond to PC if/when PC grows in the future. This study found that although it makes senses for incumbents

to ignore PC, there may be risks in doing so, as PC may grow in the future. This is supported by extant research which posits that, because new innovations are typically “non-disruptive” in the short-term, incumbents characteristically fail to respond in a timely manner (Christensen et al., 2004; Schmidt & Druehl, 2008). Further, disruptions are often unexpected because new entrant innovations do not begin by directly attacking the incumbents and their products or services (Christensen et al., 2008).

Overall, given the fact that PC platforms are struggling to gain traction in New Zealand, this study advances that banks can strategically respond to PC by ignoring it, in the short to medium term.

6.6.2 Collaborate with property crowdfunding platforms

The data suggest that the second response strategy incumbents can use is to collaborate or work together with PC platforms.

PC is an adjacent business for banks

Incumbents may collaborate with PC platforms because platforms are an adjacent business for banks, they offer a solution to equity financing in the capital stack. There is a complementary relationship between platforms and banks. Collaboration between banks and PC platforms can help platforms to gain credibility and trust in the market, although there may be potential hazards associated with this collaboration for banks. The findings that collaboration is a logical response because platforms are an adjacent business for banks, and that there is a

complementary relationship between platforms and banks, are consistent with the DIT literature which suggests that collaborating with new innovations entering an industry can serve as a powerful engine for growth for the incumbents (Christensen et al., 2002; Gilbert, 2003; Geurts et al., 2022; Markides & Oyon, 2010). Collaboration can bring about competitive advantages and synergies that can strengthen the two business models (Osievskyy & Dewald, 2015). Collaborating with PC platforms means incumbents can “play both games at once” (Charitou & Markides, 2003, p. 60), whereby they benefit from both models, namely their existing business model, and the innovative business model. This response strategy is also supported by Gibilaro and Mattarocci’s (2018) study which found that there is a complementary relationship between traditional financing institutions and PC, with the latter providing a financing solution for the (lower) market segments which the traditional institutions tend not to finance due to high risks, low value of collateral, and/or low income, among others. PC platforms primarily provide a service to a market segment which banks only marginally finance, due to their lending policies (Gibilaro & Mattarocci, 2018).

Incumbents should evaluate PC while it is in its early stages

The study also found that incumbents should consider getting involved in PC platforms early on to learn about PC and analyse its potential, without making a significant capital outlay. This is in line with the extant research which indicates that incumbents must evaluate a new innovation coming into an industry while it is in its early stages, before it has impacted the industry (e.g., Chesbrough & Crowther, 2006; Raffi & Kampas, 2002). Incumbents may get involved in the innovation early on, on an experimental basis, to learn about it and scrutinise the potential market (Lee & Grewal, 2004). Getting involved in the innovation means incumbents can see whether it is a threat to its business or not, and take pre-emptive actions to

address the threat where necessary (Raffi & Kampas, 2002). This will enable incumbents to develop the necessary in-house expertise; as well as identify any opportunities the innovation may offer, and any potential collaborations with the new entrant (Raffi & Kampas, 2002).

It is too early for incumbents to get involved in PC

Banking executives interviewed thought that, as PC currently stands, it does not make sense for them to allocate any time or resources towards responding to it, or collaborating with the platforms. This is in accordance with previous research which states that, given the uncertainty associated with the introduction of a new innovation, incumbent firms need to employ strategies with low-level commitment and high-level reversibility (Claude-Gaudillat & Quelin, 2006). Further, as soon as an incumbent notices that a new innovative entrant is beginning to challenge its leadership position in the market, it can co-opt the platform by forming a partnership or licencing its technology, or buying the new entrant completely (Kapoor & Klueter, 2015). Therefore, this study's findings are supported the extant studies mentioned above.

Collaboration opportunities between banks and platforms in the future

While acknowledging that it is too early to establish how banks may get involved in PC, given the nascent state of the sector, some research participants argued that there may be some collaboration between PC platforms and banks, such as underwriting, in the medium to long term, if PC grows. Previous research indicate that adopting a new innovation and integrating it with the incumbent's business could be done in numerous ways, for example, set up a separate business unit focusing on the new innovation (Charitou & Markides, 2003), or operate the two

dissimilar business models in the same market (Markides & Charitou, 2004). Conflicting asset/resource allocations and operations of the traditional business model and the new innovation can necessitate establishing an independent and separate enterprise or business unit (Kim & Min, 2015). The separate business unit focusing on the new innovation would have allocated resources and is unencumbered by the institution's legacy systems and any other constraints (Christensen & Raynor, 2003; Gilbert, 2006). According to the DIT literature, incumbents may choose to acquire the new innovation/potential disruptor (Gans, 2016), or use a "coopetition" strategy whereby they simultaneously pursue cooperation with and competition against new entrant innovations, so as to create more benefits and value (Geurts et al., 2022). This suggests that if/when PC platforms grow in the future, banks may need to consider how they can get involved in PC because prior research has shown that there are different approaches that incumbents may use, as stated above.

Collaboration with banks can help PC platforms gain credibility and trust

The PC platforms' founders who were interviewed believed that collaborating with banks could help their platforms build credibility and gain the trust of the general public. This is supported by earlier studies which posit that new and young entrepreneurial firms need to build their legitimacy and reputation in order to grow (e.g., Petkova, 2012; 2016; Petkova et al., 2008; Zimmerman & Zeitz, 2002). New firms can build their reputation through their own actions and initiatives, or they can "borrow" reputation by associating with established industry incumbent (Petkova, 2012). The study found that some of the PC platforms have sought collaboration opportunities with banks, but have been unsuccessful. This is consistent with prior research which indicates that new firms need to develop their own relational legitimacy which is their "worthiness to be a partner" (Dacin et al., 2007, p. 175; Kwak et al., 2019, p.

117). New firms need to work on their inter-organizational relationships, and they must show or prove to the incumbents that they are worthwhile partners. Innovative firms can find themselves in a counterintuitive and paradoxical situation whereby they seek collaboration or assistance from the very incumbents they intent to disrupt (Antonio & Kanbach, 2023). The extant literature therefore support this study's findings, which indicate that PC platforms need to work on building their own reputation and legitimacy in the market.

Collaborating with PC platforms can present risks for banks

Interviews data also suggests that banks may face some disadvantages or risks if they get involved in, or collaborate with PC platforms. Banks are currently making record-high profits and therefore may not take the risk of getting involved in, or collaborating with PC platforms. A bank may face reputational risk if a platform it is collaborating with fails, or if a crowdfunded project in which a bank is involved fails, causing investors to lose their money. This is consistent with prior research which indicated that adopting a business model of an innovative entrant, or collaborating with the new entrant, can present numerous risks for the incumbent firm (Markides, 2006).

Prior studies have identified numerous potential risks of incumbents getting involved with new innovations entering their industries: (a) damaging the firm's image, brand, reputation and values related to it, and creating confusion (Markides & Charitou, 2004), (b) engaging in activities that are not only different from, but also conflicting with its current activities (Christensen, 1997; Markides, 2006), (c) changing customers from high-end tiers of the market to low-margins ones (Charitou & Markides, 2003; Markides & Charitou, 2004), (d) 'cannibalizing' current customer base (Govindarajan & Kopalle, 2006a; Schmidt & Druehl,

2008), (e) losing sales in the current product/service due to sales of a new and dissimilar product/service in the same firm (Schmidt & Druehl, 2008), (f) compromising quality of products/services offered to customers, by attempting to offer everything to everyone (Markides & Charitou, 2004), and (g) destroying the general culture of the organization and confuse employees and customers about the firm's priorities (Christensen, 1997), among others. Further, by adopting or getting involved in the new innovation, incumbents may legitimize this new business model, which may create an incentive for other incumbent firms to adopt that model (Markides & Charitou, 2004). These prior studies support this research findings, and suggest that if banks collaborate with PC platforms or get involved in PC, they may face numerous risks as stated above.

Although it is still early stages of PC in New Zealand, and banks are unlikely to collaborate or get involved with PC platforms in short term; before banks collaborate with PC platforms in the future, it would be important for banks to consider the risks identified in the literature as listed above. Implications of banks collaborating with PC platforms, or getting involved in PC in some way, is an area which future studies may explore as PC grows in the future.

In summary, this study found that banks may consider collaborating with PC platforms in the future, and this finding is supported by previous studies, as discussed above.

6.6.3 Strengthen own business model/products/services

Data from the interviews suggests that the third response strategy incumbents may use towards PC is strengthening their business model, products and services.

Responding by strengthening own products and services is supported by the literature

Banks must provide better services and make it easier for people to get finance, in order to remain competitive against innovations coming into the industry. Banks must streamline and simplify their services for customers, to better compete against crowdfunding platforms which leverage technology and the Internet to provide various technology-enabled advantages. Competition from new innovations will cause banks to improve their products and services, which will lead to improved customer services and experience.

These findings are supported by the literature which posits that when a new, potentially disruptive innovation enters the industry, incumbents may strategically respond by strengthening their own business model and compete against the new and potentially disruptive innovation on that basis (Adner & Snow, 2010; Charitou & Markides, 2003; Christensen et al., 2004; Markides, 2006). If incumbents perceive a new innovation coming into an industry to be a threat, they may respond by investing in their current business; improve, enhance and upgrade the traditional way of doing business, and advance their competitive position relative to the new innovation entering an industry (Adner & Snow, 2010; Markides, 2006). Further, if the new innovative business model does not make economic sense for the incumbent, improving its current business model may be a suitable response (Markides, 2006). The finding that banks must respond by improving their products/services is also in accordance with the DIT literature which posits that incumbents usually prioritize investing in sustaining innovations that enhance their current products or services for their existing clients (Christensen, 1997). It is not a prudent investment decision to invest in new and unproven innovations (Christensen & Bower, 1996).

The interviewees indicated that banks could choose to strengthen, upgrade and enhance their products and services. This is consistent with the extant literature which posits that, after a new innovation has become too visible and popular to ignore, most of the incumbents in an industry tend to choose this strategy of strengthening their own business model (Christensen 1997). Incumbent firms choose “pure exploitation”; they focus on strengthening their current business model (Osiyevskyy & Dewald, 2015). Exploiting the firm’s resources, competences, and existing business model, the incumbent firm undertakes incremental improvements in its products/services to satisfy the upper segments of the markets, or differentiate itself, thereby protecting itself from inferior, new innovative entrants (Christensen 1997).

Banks’ products are services are better than PC platforms

This study found that currently, PC platforms have several limitations, and banks’ products and services are superior. According to prior research, if an incumbent firm’s products/services are superior or more value added than the new innovation, the incumbent can respond by simply strengthening its business model and upgrading their products/services (Christensen, 1997). Improving the traditional way of doing business is a particularly appropriate response when the new innovation/technology is considered inferior and has some limitations or weaknesses (Osiyevskyy & Dewald, 2015). Currently, PC platforms have numerous limitations as discussed in Section 6.4.

Innovative industry entrants can create competition, resulting in better products and services for customers

The participants interviewed also perceived that having new innovative companies entering the financial services industry, and creating some competition is good because competition generally causes companies in an industry to strive to do better and improve their products and services, and the customers will benefit. This is supported by the DIT literature which states that incumbents tend to focus on sustaining innovation in their markets; they constantly improving their products and services, resulting in better services and experience for customers (Christensen, 1997; Christensen & Bower, 1996).

Some response strategies in the literature were not identified in this study

It is noteworthy that although the literature review in Chapter 2 presented numerous response strategies in the extant literature which incumbents may use when a new, potentially disruptive innovation enters their markets, this study has identified only three main response strategies as discussed above. Other strategies identified in the literature review are not yet applicable to PC in New Zealand. This may be because PC is still relatively new, and is struggling to grow in New Zealand, thereby causing incumbents to believe that they do not (yet) need to strategically respond to PC. Further, some of the response strategies identified in Chapter 2 apply to situations where a new innovation is growing rapidly and there is strong certainty that it will impact the market, and this is not (yet) the case for PC in New Zealand. However, some of the response strategies may later become relevant or applicable, if/when PC grows in New Zealand.

In summary, this study's findings on how can banks strategically respond to PC are supported by previous studies, as discussed above. The study's findings which revealed three response strategies incumbents may use towards PC, as discussed in this section, answer the fifth and last sub-research question for this study, as stated at the beginning of this section.

6.7 Avoiding and overcoming challenges faced by New Zealand PC platforms

6.7.1 How overseas PC platforms addressed challenges faced in New Zealand

Interviews data presented in Chapter 5, and discussion in Sections 6.4 and 6.5 of this chapter, suggest that PC in New Zealand is facing extensive challenges. This raises questions whether platforms from successful PC markets have faced challenges similar to those being faced in New Zealand, and what actions or measures they took to address or avoid them. As part of the discussion of this study's findings, it is therefore essential to show that these problems are solvable for New Zealand. Accordingly, this section explains and discusses how platforms in overseas PC markets successfully addressed and overcame some of the challenges currently hampering the growth of PC platforms in New Zealand.

Regulatory framework

Italy

Gigante and Cozzio (2021) examined PC in Italy found that following the introduction of crowdfunding legislation in Italy in 2013, better regulatory clarity over the years has enabled PC to grow, and has also helped the general public/investors to have confidence in PC

platforms. For PC in New Zealand, this suggests that there is a need for the FMA to review and improve PC legislation, in consultation with PC platform managers.

Finland

A study by Bogdanova (2018) found that the Finnish Crowdfunding Act (CFA, 734/2016), which was enacted in 2016, had some uncertainties and problems regarding equity crowdfunding on PC platforms in Finland. However, the Finnish PC sector has managed to grow by focusing on debt crowdfunding for residential development and bridging loans, which has since grown exponentially (Bogdanova, 2018). For New Zealand, this raises the question: if the FMA will not amend the PC legislation (at least in the short term), how may PC platforms in New Zealand use the legislation as it currently stands to their most benefit?

Australia

A study by Lowies et. al., (2017) on investor perceptions on PC in Australia found that although Australians are familiar with equity crowdfunding and the legislation that governs it, they lack knowledge about PC and its legislation, causing them to hesitate using PC platforms. The authors argue that Australian PC platforms must educate the general public about PC and the regulations that protect their investments (Lowies et al., 2017). Drawing from these authors, it can be argued that lack of knowledge about PC regulations in New Zealand may be one of the reasons why PC platforms are struggling to attract crowd investors. Thus, PC platforms in New Zealand can follow the recommendation by Lowies et al. (2017), and educate the public about PC and its legislation.

Spain

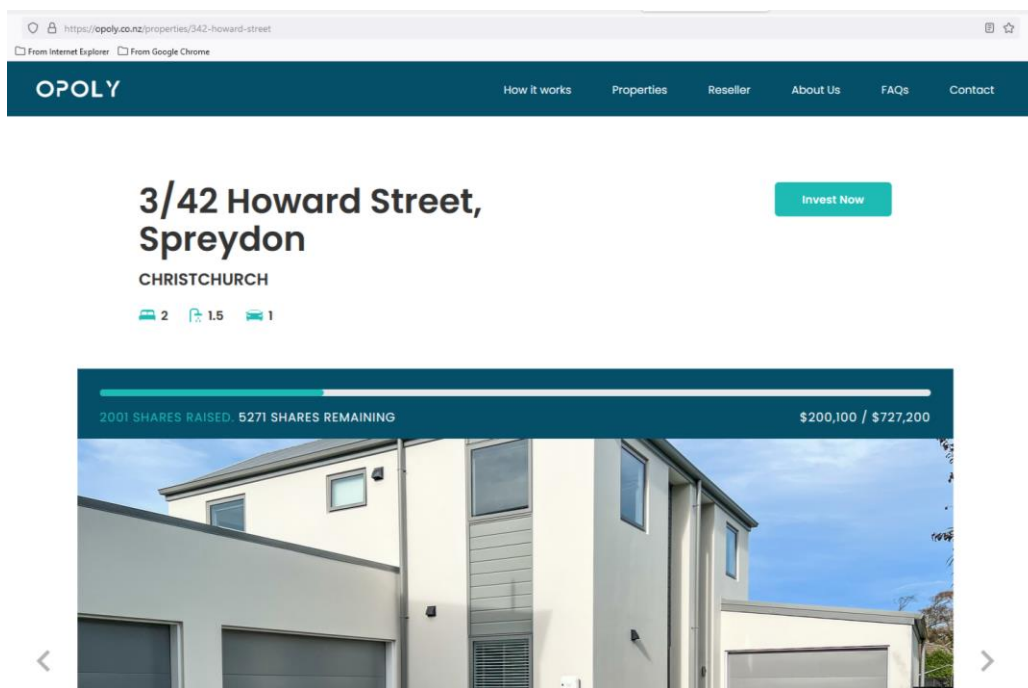
Borrero-Dominguez et al. (2020) studied PC in Spain and concluded that crowdfunding legislation in the country, namely the Promotion of Business Financing (Law 5/2015), must be improved to enable the sector to grow further. Similarly, another scholar, Garcia-Teruel (2019) also examined the legal framework for PC platforms in Spain and found that the process of getting registration and approval from *Comision Nacional del Mercado de Valores (CNMV)*, the governmental agency in charge of regulating securities in Spain, is complex and challenging. Garcia-Teruel (2019) also reported that, given the stringent PC legislation in Spain, several Spanish PC platform operators had found a way to structure their companies and operate their platforms which enabled them to legally avoid the Act 5/2015 stringent legislation. Consequently, only three PC platforms in Spain have, and use, the *CNMV* authorisation, while seven platforms do not follow the Act 5/2015 legislation (Garcia-Teruel, 2019). By circumventing the Act 5/2015 legislation, PC platforms in Spain have been able to grow (Garcia-Teruel, 2019).

This is interesting because something similar to the circumvention of legislation observed in Spain by Garcia-Teruel (2019) may also be already occurring in New Zealand. The newest PC platform to enter the market, namely *Opoly*, operates as a private company without the FMA licence, and the company uses other platforms; it posts its projects or properties seeking crowdfunding on existing PC and equity crowdfunding platforms, namely *Collinson Crowdfunding* and *PledgeMe*. For example, previously, *Opoly* attempted to crowdfund two properties via *Collinson Crowdfunding* platform (Scoop, 2021). As Scoop stated: “*Opoly has partnered with Collinson Crowdfunding, who is regulated by the FMA, to facilitate the offer. Investor shares are in a holding company which in turn owns each property*” (Scoop, 2021).

However, this crowdfunding campaign was unsuccessful; it failed to get interest from the public/investors. Currently, as of 8th September 2022, via the equity crowdfunding platform PledgeMe, Opoly has a crowdfunding opportunity of a residential house in Christchurch listed on its website, as shown below. When a person clicks on “invest now”, they are immediately taken to PledgeMe’s website, where there is a page for crowdfunding for this property, as shown in Figures 31 and 32 below.

Figure 31

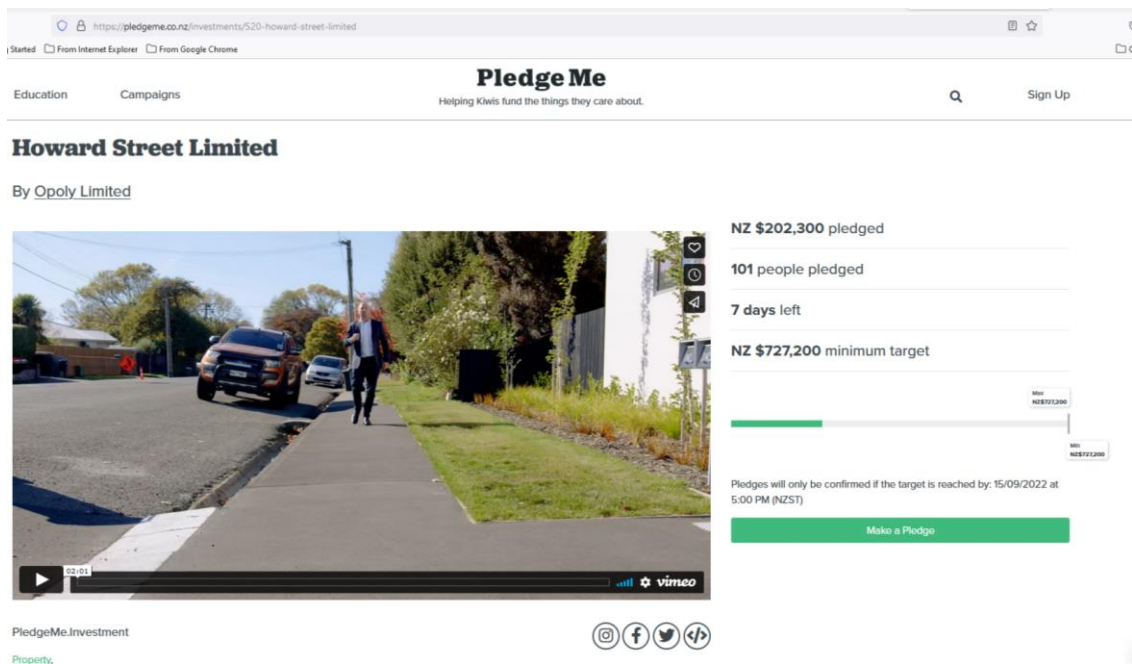
Opoly crowdfunding opportunity in Christchurch



Source: Opoly (2022)

Figure 32

Opoly crowdfunding opportunity in Christchurch listed at PledgeMe



Source: PledgeMe (2022b)

Opoly's approach of conducting property crowdfunding without an FMA licence and using other platforms that already have licences is not surprising because PC founders who participated in this study believed that, based on their experience from their platforms, the process of applying for and obtaining the FMA licence is arduous. The case of Opoly raises the question: by operating without the FMA licence, and therefore avoiding some of the challenges associated with FMA-licences, will this enable Opoly to grow? By saving financial resources involved in applying for the FMA licences, and ongoing regulatory compliance costs associated with holding the licence, Opoly may use its resources to promote its crowdfunding services, which may enable it to grow.

PC platforms in other countries have faced some challenges related to their respective PC legislations. However, these countries have made necessary improvements to their legislations;

educated their public about PC legislation in their countries, and PC platforms sought ways to grow within the legislative frameworks in their countries. This suggests that PC platforms in New Zealand can learn from the above presented examples, and overcome the regulatory challenges they are currently facing.

Industry and market contextual factors

UK

The property crowdfunding sector in the UK has grown significantly because the country customized PC to suit its context. A study on the PC sector in the UK by Gibilaro and Mattarocci (2018) found that PC platform founders in the UK capitalized on the contextual factors in the UK, specifically the restrictions in the traditional mortgage market, and stringent lending policies by banks, to set up PC platforms focusing on crowdfunding of real estate mortgages and peer-to-peer lending. By making the most of the situation of UK's mortgage market, PC platforms founders managed to establish platforms offering what the market wants or needs, and this has supported rapid growth of UK platforms such as Property Partner and LendInvest, which were mentioned in the previous Section 6.3. This raises the question: how may PC platforms in New Zealand customize their services to suit the New Zealand environment? PC platforms in New Zealand can grow if they design their platforms and services to suit the New Zealand market, and meet specific needs in the market.

USA

Along similar lines, PC in the USA has been very successful because it was designed to meet two specific needs, namely, (a) to give small-scale developers easy access to finance, and (b) to give retail/individual investors the ability to invest in big property projects that offer high returns. In the USA, crowdfunding legislation JOBS Act (2012) supported the fast growth of PC because it eased the constrictive laws for raising capital, and provided ordinary people with “access” to the investment asset class of real estate (Schweizer & Zhou, 2017). The JOBS Act and PC platforms in USA served to “democratize” access to real estate investments because previously, due to the securities regulations, and high minimum investments, the general public were excluded from investing in large property investment projects; only institutional and high-net-worth investors had access to investing in real estate (Burgett & McDonald, 2013). Allowing the general public to invest in real estate in the USA was also important since deposit interest rates from banks in USA are negative or low. PC in the USA was promoted under the slogan “democratizing real estate investing” (Burgett & McDonald, 2013, p. 43), whereby it solved a specific problem in the market, and as a result, it achieved high uptake in the market. Drawing from the above mentioned studies, the question for PC in New Zealand becomes: what pressing and urgent problems exist in the housing market or construction industry, and how can PC platforms capitalize on these problems, by using their platforms to solve them? Suggestions on how PC platforms can help to address specific needs and problems in New Zealand are presented in the following Chapter 7.

Related to the point above, this study’s research participants pointed out that access to capital is not a significant problem in New Zealand – established and reputable developers can easily raise bank and non-bank alternative development finance. Yet, PC platforms seem to focus on

solving the (supposed) problem of lack of development finance. This suggests that PC platforms need to review and refine their business models, and focus on solving urgent and pressing problems in the New Zealand property/housing sector. Further, although some small-scale developers do struggle to get finance from banks, PC platforms have not yet formulated customized services that specifically target these developers, and really make it easy and possible for them to successfully raise finance from the platforms.

Cultural and behavioural factors

Lowies et al. (2017) examined how PC is perceived by investors in Australia and reported that investors have a conservative perception of PC, and a cautious behavior towards PC as an investment tool. Lowies et al. (2017) also found that demographic factors impact behaviours towards PC in Australia. This echoes the finding of this study: demographic factors are shaping the uptake of PC in New Zealand. However, interestingly, despite these cultural/behavioural and demographic factors in Australia, the country's PC sector has grown, though still small compared to large markets such as USA. The Australian PC sector is relatively larger and more active than New Zealand, with active platforms such as VentureCrowd, BrickX, DomaCom, and CrowdfundUP, among others. It appears Australian PC platforms have been promoting their services in the media, and as a result there is a greater market awareness for them. This suggests that, for PC in New Zealand, persistent promotions of PC platforms, and educating the public about PC, can help improve the current situation facing the PC sector.

Population and income factors

Estonia

This study also found that New Zealand's small population of 5 million is hindering the growth of PC. However, PC has been successfully established, and has grown in other countries with small population. For instance, in Estonia, PC has been successful, with EstateGuru as one of the leading PC platforms that has since grown and expanded to other countries. Cognizant of the small size of the Estonian market, EstateGuru set upfront a goal to expand into other markets, and this was achieved using the pan-EU crowdfunding legislation. This suggests that, if PC can succeed in a small country such as Estonia, with a population smaller than New Zealand, it is reasonable to expect that PC can succeed in New Zealand, despite its population size. One interviewee from Estonia, who was involved in the conceptualization and development of this Estonian platform from the start, explained that PC in Estonia is already mature:

“In Estonia, property crowdfunding is at a much mature stage already. Because we wanted to start crowdfunding, we started, of course in Estonia ... And because we have quite a small market, we have only one and a half million people, if you start a crowdfunding platform, you start from your local market and then you have to go for foreign countries. ...” (P12)

Despite Estonia having a small population of 1.3 million people, the platform grew rapidly in Estonia and now has offices in the UK, Finland, Latvia, Estonia, and Lithuania. A question then arises: how can New Zealand PC platforms expand their markets?

The two leading equity crowdfunding platforms in New Zealand, namely Snowball Effect and PledgeMe, avoided the challenge of the country's small population and thus small market by obtaining crowdfunding licences and operating in both New Zealand and Australia. In 2019, Snowball Effect obtained an Australian Crowdsourced Funding license from the Australian Securities and Investments Commission (ASIC), and it states on its website that "Snowball Effect offers private investment opportunities to eligible Australian investors", and that it enables Australians to "invest directly into private New Zealand high-growth companies" (Snowball Effect, 2019; 2022). In 2021, PledgeMe also announced that it had applied for and received a Crowdsourced Funding license in Australia issued by ASIC (PledgeMe, 2021). Expanding into Australia enabled Snowball effect and PledgeMe to expand their markets and avoid the challenge of New Zealand's small population and market. Further, PledgeMe expanded its revenue base in New Zealand by having both a crowdfunding and peer-to-peer licence which enables it to offer wide range of services (FMA, 2021c).

This was reiterated by some of the research participants who pointed out that PC platforms' costs of compliance are high; thus platforms intending to scale their operations would need to increase the number of people they employ, making it difficult for the platforms to be profitable, especially given New Zealand's small market. Interviewees commented that equity crowdfunding platforms such as Pledge Me and Snowball Effect are successfully operating in New Zealand because they offer a combination of different services which have given them the momentum and profitability to continue to operate. For example, having several revenue streams, diversified offering (crowdfunding as well as peer-to-peer lending), and operating in two countries (New Zealand and Australia) has helped Pledge Me to generate enough revenues to continue to operate. One of the interviewees explained:

“The biggest challenge for crowdfunding is being able to grow. Crowdfunding has a lot of reviewing and compliance required of it. And as companies [i.e., platforms] try to scale the number of offers, they are having to scale the number of people they employ. And the risk is that, to make money in that environment is quite challenging when you can only get a few deals done in a year. And if you look at Snowball and Pledge Me, they've got other services that they're running which are probably helping them to continue to operate and make money. ... Pledge Me have got a peer-to-peer license, in addition to a crowdfunding licence. And they've got their rewards-based funding and they also operate in Australia.” (P2)

Thus, New Zealand PC platforms may consider operating in both New Zealand and Australia, and holding both crowdfunding and peer-to-peer licences. This can help the PC platforms to overcome the challenge of a small market in New Zealand.

Overall, this study's findings will complement prior studies that have examined PC in other countries, as discussed above. PC in New Zealand has not yet attracted scholarly attention because it is nascent, and has so far failed to achieve the level of success other countries such as USA and UK have experienced. This study filled this gap by conducting an in-depth examination of the challenges and contextual factors affecting PC in New Zealand. This section has also examined how overseas PC platforms have addressed some of the challenges currently faced by PC platforms in New Zealand.

6.7.2 How overseas PC platforms avoided limitations faced in New Zealand

The purpose of this section is to show how PC platforms in successful overseas PC markets avoided the limitations currently faced by PC platforms in New Zealand, as identified in this study. A review of PC platforms from successful overseas markets has shown that these platforms have taken measures to avoid the challenges and issues which New Zealand PC

platforms are currently facing. Looking at what successful overseas PC platforms are doing can offer ideas on how New Zealand PC platforms can address the issues of lack of: transparency, due diligence, secondary markets and/or exit strategies, and scale and diverse properties.

Table 13 presents how overseas PC platforms avoided limitations identified in this study. The table lists the key limitations of the New Zealand PC platforms identified in this study; how overseas PC platforms have avoided or overcame each of these limitations using specific examples, and how New Zealand PC platforms can emulate overseas PC platforms and address the problems they are currently facing. The overseas PC platforms mentioned in Table 13 are some of the most successful platforms; they have raised billions of dollars for real estate through crowdfunding, as stated in the previous Section 6.3.

Table 13

How overseas PC platforms avoided limitations identified in this study

Limitations/Limited functionalities identified in this study	How overseas PC platforms have avoided/overcame this issue	How NZ PC platforms can emulate and address this issue
Lack of transparency and lack of due diligence	<ul style="list-style-type: none"> ▪ Educational and informational material: PC platforms in USA, UK, and Europe provide detailed and extensive educational and informational material about PC and their services on their websites. They have sections of their platforms that serve as online ‘libraries’ with a lot of content about PC. Exemplary platforms are: Findrise.com, CrowdStreet.com, PropertyPartner.co, and Rendity.com ▪ Full information disclosure on projects: PC platforms in USA, UK, and Europe provide full information disclosures; detailed information about projects posted on their platforms is provided, which enable prospective investors to conduct due diligence analysis and make informed investment decisions. Exemplary platforms are: Rendity.com and CrowdStreet.com. ▪ Key performance indicators for investments and for the platform: PC platforms in USA, UK, and Europe display key indicators of the performance of their platforms and of crowdfunded projects, which gives prospective investors confidence about PC. Exemplary platforms are: CrowdStreet.com, RealtyMogul.com, and Rendity.com 	<ul style="list-style-type: none"> ▪ NZ PC platforms can provide detailed educational content about PC on their platforms, emulate overseas PC platforms such as Findrise.com, CrowdStreet.com, propertypartner.co, and Rendity.com ▪ NZ PC platforms can offer detailed information/full disclosures about projects posted on their platforms to help prospective investors do their analysis and feel confident about investing. Local platforms can emulate overseas platforms such as Rendity.com and CrowdStreet.com. ▪ NZ PC platforms can display on their websites key indicators of their performance, this will give New Zealanders some confidence about investing in PC, and about the platforms. Local platforms can emulate overseas platforms such as CrowdStreet.com, RealtyMogul.com, and Rendity.com
Lack of secondary market/exit strategies	<ul style="list-style-type: none"> ▪ Secondary markets: PC platforms in USA, UK, and Europe have secondary markets/exit strategies, and some display these on their websites. For instance, the UK’s Property Partner has a “Resale Market” page that displays the secondary market data, live trading, trading data, and selling record and returns. 	<ul style="list-style-type: none"> ▪ NZ PC platforms can apply for and acquire a secondary market licence from the FMA. The platforms can display on their websites markets data on PC shares, trading data, and returns. This will give prospective investors confidence that when/if they want to exit their investments, they will be able to do so. Local platforms can emulate overseas platforms such as Propertypartner.co
Lack of (scale and) diverse properties	<ul style="list-style-type: none"> ▪ Scale and diverse properties: PC platforms in USA, UK, and Europe enable people to invest in a wide range of property types/projects. For example, RealtyMogul.com offers crowdfunding opportunities in industrial, multi-family, office, and residential projects. Another example, PatchLending.com offers crowdfunding investing opportunities in wide range of projects/loans, including ground-up construction projects, bridge loans for single- or multi-family properties, fix and sell properties, and in long term rental properties. 	<ul style="list-style-type: none"> ▪ NZ PC platforms can offer diverse crowdfunding investment opportunities in residential, industrial, and commercial sectors. Currently, NZ platforms seem to have ‘narrow’ product ranges, with one platform that focused only on development projects, another platform currently focused in completed residential properties. A broad range of properties would ensure different investors can find opportunities that suit them, and enable them to diversify their investments.

The following pages describe how the key limitations of the local PC platforms have been avoided by overseas platforms, using some examples and images. Drawing from the examples from successful PC markets, this section shows how the New Zealand PC platforms can address the challenges they are currently facing.

Lack of transparency and lack of due diligence – Educational and informational material on PC

PC platforms from more successful PC markets such as USA, UK, and Europe provide comprehensive educational and informational content about PC and the services they offer on their websites/platforms, as shown by screen shots of CrowdStreet (USA), Fundrise (USA), Rendity (Austria), and Property Partner (UK), presented in Figure 33 and Figure 34 below. For example, Austria’s Rendity PC platform has educational and informational content on PC, under the “How to” tab, as shown in Figure 34 below. In the UK, one of the leading platforms, Property Partner also has a “Knowledge base” section on its platform, as illustrated in Figure 34 below. For all these overseas PC platforms, the educational and informational content is highly visible on the platforms, with tabs at the top bar of their websites.

Figure 33

USA's Fundrise and CrowdStreet platforms' resources and education

The image displays two screenshots of real estate investment platforms. The top screenshot is for CrowdStreet, showing a navigation menu with 'Resources' expanded to include 'Investor Quick Start Guide', 'STREETBEATS: Expert Insights', 'Webinars & Events', 'CRE Education', and 'Help Center'. The main banner features the text 'Build something real. An easier way to build a real estate portfolio, no landlording required.' with a 'Get Started' button. The bottom screenshot is for Fundrise, showing a navigation menu with 'RESOURCES' expanded to include 'HELP & FAQs' and 'EDUCATION'. The main banner features the text 'Welcome to the future of real estate investing. Simple, low-cost, and more powerful than ever.' with a 'GET STARTED' button. Both screenshots include browser address bars and navigation links like 'Marketplace', 'Investors', 'Sponsors', 'Log In', and 'Join CrowdStreet'.

Source: <https://www.crowdstreet.com/> & <https://fundrise.com/>

Figure 34

Austria's Rendity & UK's Property Partner: How to and Knowledge base

Austria's Rendity – How to

Investments Financial Products **How to** Company Sign in Sign up

RENDITY

DIGITAL REAL ESTATE PORTFOLIO

The new world of real estate investments

Invest online in real estate from experienced project partners. Simply register and invest transparently - without any fees.

[Invest now](#)

Return	Duration
6.5% p.a.	30 months
Project type	Growth
Distribution	Yearly
Rating	A

120.073.326 €
Invested capital

39.536.441 €
Already refunded capital

29.977
Customers

UK's Property Partner – Knowledge Base

Property Partner

Knowledge Base

Search

- Introduction
- How it works
- Property types
- Your account
- Regulation & Policies
- FAQs and Glossary

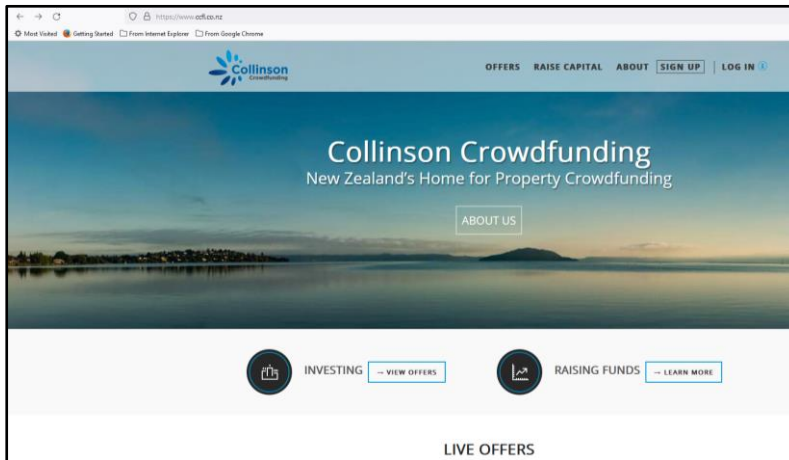
Source: <https://rendity.com/en> & <https://www.propertypartner.co/>

A New Zealand example: Collinson Crowdfunding

While successful PC platforms from overseas markets provide a lot of educational and informational content on their platforms, as presented above, by comparison, PC platforms in New Zealand provide very little educational and informational content, if any. For example, Collinson crowdfunding, seems to be very lacking on educational and informational material on its website. Unlike overseas platforms that have ‘resources’ / ‘education’ tabs clearly displayed at the top on their platforms’ homepages, Collinson Crowdfunding does not have this. As illustrated in Figure 35 below, Collinson does not mention education, resources, or how to, in the top bar of the website/platform’s home page. The only information Collinson Crowdfunding has is a list of 12 frequently asked questions (FAQ) which have very brief 2-3 sentences answers to them, and the FAQ ‘tab’ is not clearly visible at the top of the platform because it is only shown at the footer of the website in relatively smaller font, as shown in Figure 36 below. This suggests that the issue of lack of information or lack of knowledge about PC amongst New Zealanders can be addressed by emulating successful overseas platforms and providing comprehensive educational and informational material on the platforms.

Figure 35

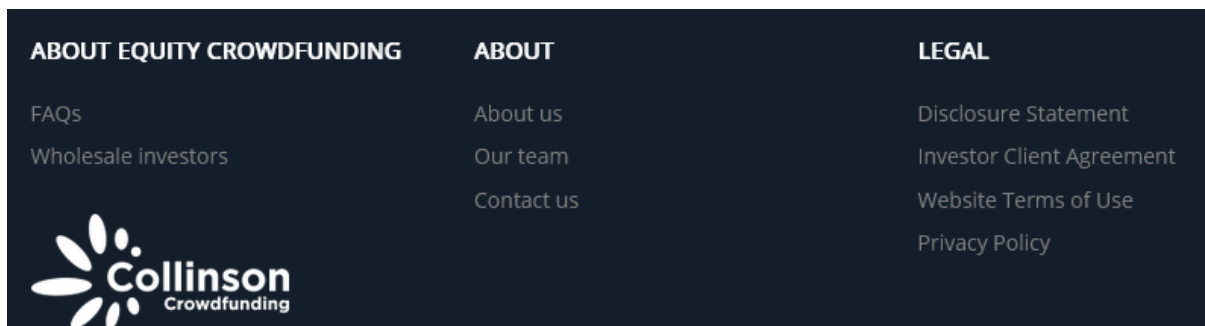
Collinson Crowdfunding platform homepage



Source: Collinson Crowdfunding Limited (CCFL) platform website: <https://www.ccfl.co.nz/>

Figure 36

Collinson Crowdfunding platform footer



Source: Collinson Crowdfunding Limited (CCFL) platform website, <https://www.ccfl.co.nz/>

Lack of transparency and lack of due diligence – Full information disclosure; detailed information on PC projects

Examination of platforms from overseas successful PC markets such as USA, UK, and Europe suggest that PC platforms provide full information disclosures; detailed information about projects is posted on their platforms, which enable prospective investors to conduct their due

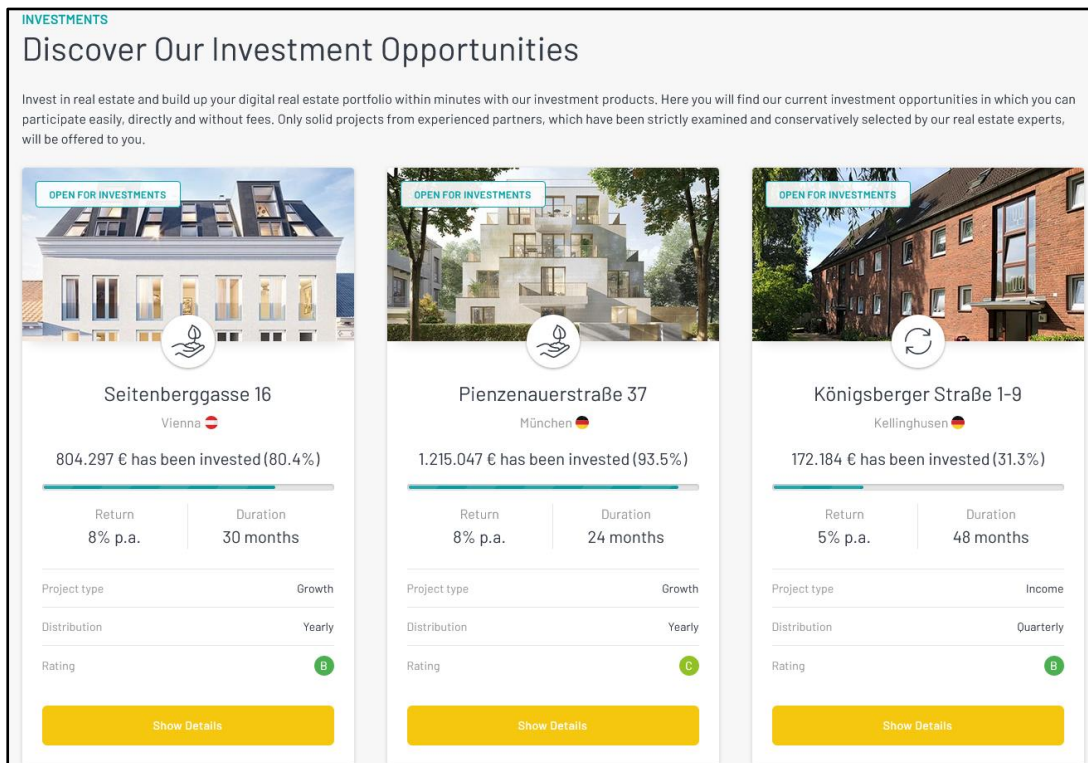
diligence analysis and make informed investment decisions. For instance, Austria's Rendity PC platform is a good example of how to provide full information on projects. On the main page of Rendity PC platform, crowdfunding investment opportunities are shown, as illustrated in Figure 37 below. When a person clicks on "Show Details" for each project, they are taken to web page that displays comprehensive information about the project, and has numerous downloadable PDF documents that provide detailed information about the project. These documents include the following:

- A 3-page project summary,
- A 15-page detailed information memorandum for the project,
- A 3-page data sheet,
- A 3-page document with information about the company raising funds from the crowd, and detailed information on the team behind the company and the project.

Further, each investment opportunity on Rendity PC platform has its own long web page where the following information is provided: project summary, deal highlights, investment case, financials, finance structure, location, project team, and references. This suggests that Rendity PC platform provides full information disclosures and detailed documents on investment opportunities, which enable prospective investors to conduct their due diligence before they invest.

Figure 37

Austria's Rendity displaying investment opportunities and returns



Source: Rendity (2022)

Lack of transparency – Performance indicators

A review of PC platforms from more successful overseas markets showed that the platforms provide data on key indicators of their platforms and of their crowdfunded projects. This gives prospective investors more confidence about PC as an investment tool, and also about the particular PC platform. For example, Austria's Rendity displays on its website the total funds it has raised from the crowd, the amount of invested capital that has already been returned to investors; investment opportunities and the expected returns, and other metrics about successful projects, as shown in Figure 38 below. Rendity also displays on its website statistics about its performance, including the number of projects already financed, projects successfully refunded, and returns earned by the investors, as shown in Figure 38. Another example, USA's

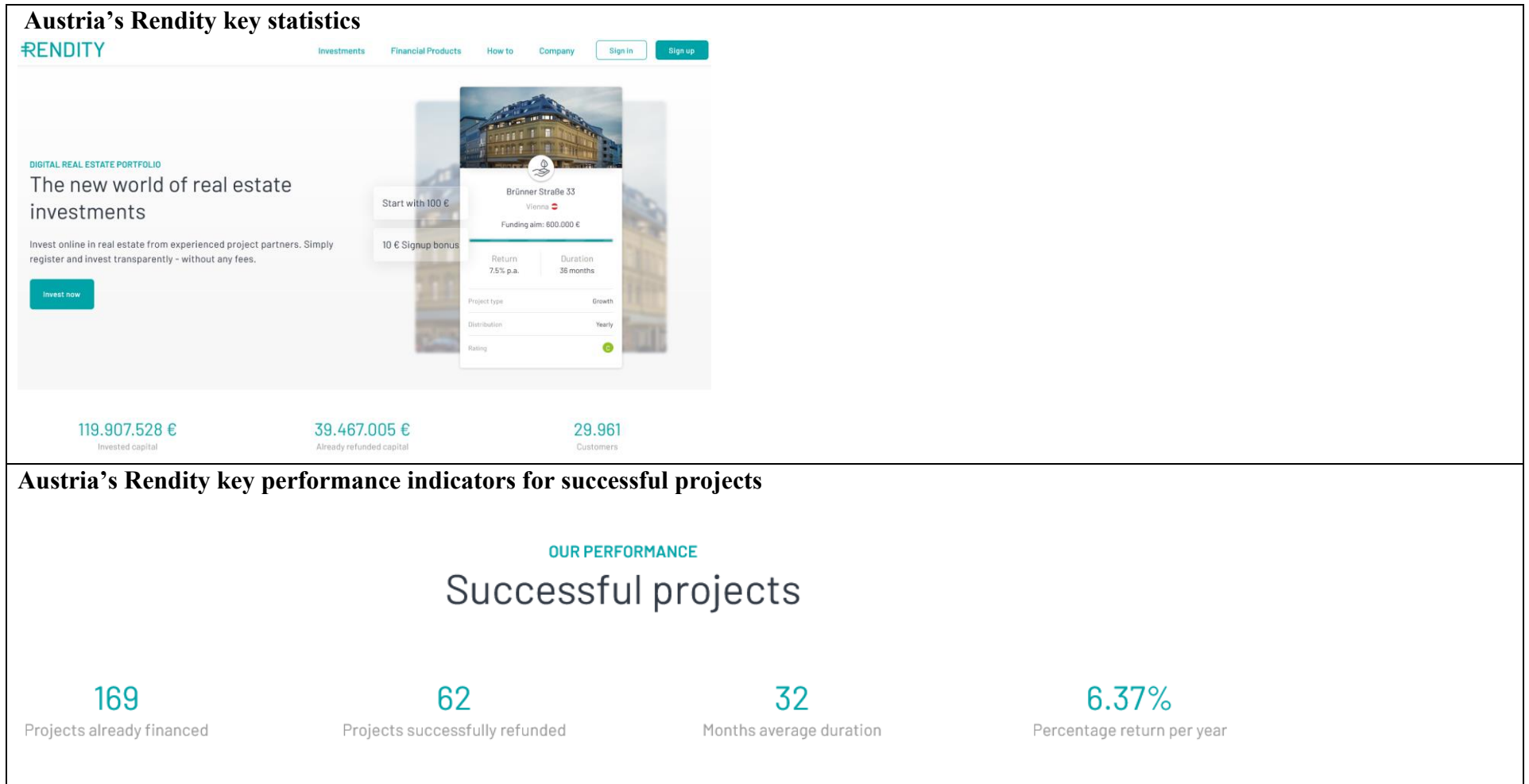
CrowdStreet also displays on its website the number of projects successfully crowdfunded to date, the amount of crowd investments, and the number of ‘realized deals’, as shown in Figure 38 below. Similarly, USA’s RealtyMogul displays key statistics on the platform’s performance, also as shown in Figure 38. This high level of transparency helps overseas PC platforms build their reputation, and appear more trustworthy. New Zealand PC platforms can emulate and learn from these successful overseas platforms, and display similar information of their platforms, once they start to gain momentum and grow.

Lack of secondary markets and/or exit strategies

PC platforms from overseas markets have secondary markets and/or exit strategies, and display these on their websites. For instance, the UK’s Property Partner has a ‘Resale Market’ page that displays market data, live trading, trading data, selling record and returns, and other important information about the platform as shown in Figure 39. This gives prospective investors confidence that if they invest in a property crowdfunding project on the platform, they would be able to exit the investment when they want to. New Zealand PC platforms can emulate and learn how overseas PC platforms such as Property Partner have secondary markets on their platforms. The New Zealand PC platforms are required to apply for a secondary market licence from the FMA, before they can establish a secondary market for their platform. Therefore, once they apply for the licence and it is granted, the PC platforms can start to display the key indicators of their secondary markets on their websites. This would give the New Zealand public more confidence that if they invest, they can exit when they want to.

Figure 38

Overseas PC platforms displaying their key performance statistics



Overseas PC platforms displaying their key performance statistics (Continued)

USA's CrowdStreet key statistics

The screenshot shows the CrowdStreet website with a navigation bar containing 'Marketplace', 'Investors', 'Resources', 'Sponsors', 'Log In', and 'Join CrowdStreet'. A 'Learn More' button is visible in a light green banner. The main content area features three large statistics in teal text: '661 + deals funded.', '\$3 billion invested.', and '138 realized deals.'. A small note at the bottom of the statistics reads 'Based on internal CrowdStreet data as of August 2022'.

Statistic	Value
Deals funded	661 +
Investment amount	\$3 billion
Realized deals	138

USA's RealtyMogul key statistics

The screenshot shows the RealtyMogul website with a navigation bar containing 'INVESTMENTS', 'REITS', 'RESEARCH', and 'OUR STORY'. The main content area features three statistics in blue text, each with a corresponding description below it: '\$5.5BN+' (PROPERTY VALUE FINANCED VIA THE REALTYMOGUL PLATFORM), '245K+' (REGISTERED REALTYMOGUL PLATFORM MEMBERSHIP BASE), and '26,000+' (APARTMENT UNITS FINANCED VIA THE REALTYMOGUL PLATFORM). A blue 'GET STARTED' button is positioned below the statistics.

Statistic	Value	Description
Property value financed	\$5.5BN+	PROPERTY VALUE FINANCED VIA THE REALTYMOGUL PLATFORM
Registered members	245K+	REGISTERED REALTYMOGUL PLATFORM MEMBERSHIP BASE
Apartment units financed	26,000+	APARTMENT UNITS FINANCED VIA THE REALTYMOGUL PLATFORM

Sources: <https://rendity.com/en>, <https://www.crowdstreet.com/>, <https://www.realtymogul.com/>

Figure 39

Property Partner displays resale market overview and live trading on platform

UK's Property Partner resale market data view

Invest in Properties | Investment Plans | Premium Services | ISA | Resources

support@propertypartner.co [Sign up](#) [Log in](#)

Portfolio update, 29 July 2022
[Read the announcement](#)

PPX

84.72

-0.06 (-0.07%) ↓

Market overview | Live trading | **Trading data** | Map view | Selling record | Other investments

Resale Market Compare

Location	Share Price	Exit Mechanic Date	Dividend at Buy Price	Premium on New Listing Price	Premium on Latest Valuation	Available at Buy Price	Net Cash as a % of Property Value
Ramsay Place, AB10 7AE	152p -2.75%	01/10/2024	7.60%	+34.27%	+6.25%	£8,798.28	+7.60%
Phoenix Studios, CV2 4HP	43p -2.58%	N/A	3.81%	-27.19%	-18.30%	£875.60	+3.80%
Bath & Oxford, BA1 & OX2 2NA	169p -0.54%	01/08/2024	5.82%	+18.54%	+5.66%	£402.22	+6.24%
53 beds in Terence House, NE1 6PN	166p +0.32%	01/02/2024	5.24%	-13.95%	-1.43%	£134.46	+7.44%
80 bedrooms in Viaduct Works, H...	82p -1.72%	01/12/2023	0.00%	-59.72%	-36.85%	£55.76	+1.94%
12 houses in Golden Hill Fort...	299p +1.31%	01/10/2023	0.00%	+80.71%	-28.16%	£849.16	+5.92%
Norman House Gama Property, D...	105p -0.03%	N/A	5.06%	+2.02%	+4.67%	£420.82	+0.49%
45 studios in Fairchild House...	152p +0.21%	01/09/2023	3.42%	-32.71%	-15.87%	£427.33	-1.24%
25 bedrooms in Colleqe Mews, LN...	57p 0.00%	01/08/2023	0.00%	-2.21%	-31.69%	£1,068.18	+0.87%
17 units in Pierpoint Street, WR1 1TA	66p -2.31%	01/07/2023	3.18%	-4.06%	-5.71%	£143.52	+3.46%

UK's Property Partner live trading

Market overview | **Live trading** | Trading data | Map view | Selling record | Other investments

Q Search by address All Properties ▼ Sort by ▼

Student

Ramsay Place, AB10 7AE

Share price **152.0p**
-2.01%

Dividend yield **7.65%**

Trading information ↗

Residential

Phoenix Studios, CV2 4HP

Share price **44.0p**
+0.26%

Dividend yield **3.73%**

Trading information ↗

Residential

Bath & Oxford, BA1 & OX2 2NA

Share price **169.0p**
-0.46%

Dividend yield **5.82%**

Trading information ↗

Student

53 beds in Terence House, NE1 6PN

Share price **162.0p**
-1.85%

Dividend yield **5.24%**

Trading information ↗

Student

80 bedrooms in Viaduct Works, HD1 6BB

Share price **81.0p**
-1.93%

Dividend yield **0.00%**

Trading information ↗

Residential

12 houses in Golden Hill Fort, PO40 9GD

Share price **297.0p**
-0.97%

Dividend yield **0.00%**

Trading information ↗

Residential

Norman House | Gama Property, DE1 1NU

Share price **106.0p**
+0.24%

Dividend yield **5.06%**

Trading information ↗

Student

45 studios in Fairchild House, SOT15 2ED

Share price **148.0p**
-2.05%

Dividend yield **3.47%**

Trading information ↗

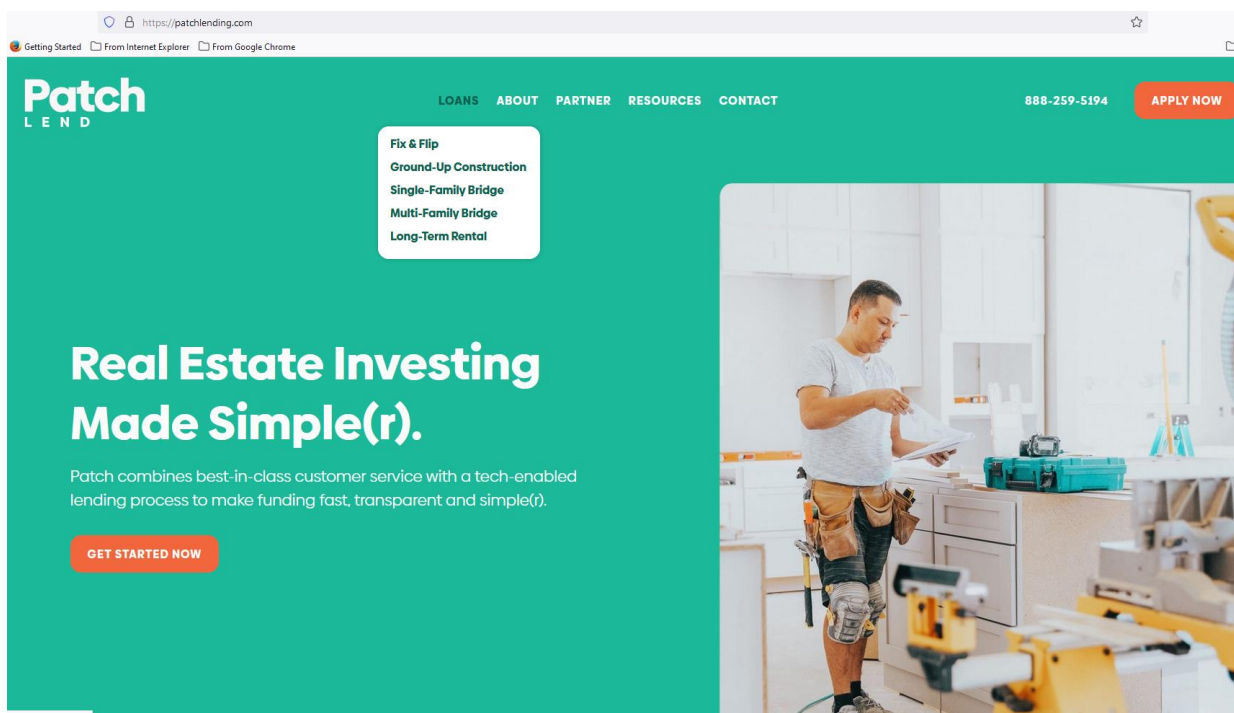
Source: <https://www.propertypartner.co/>

Lack of diverse properties

Inspection of overseas PC platforms indicates that they offer a wide range of crowdfunding opportunities on their websites, consisting of different types of property. For example, USA’s Patch Lending enables the crowd to invest in a wide range of projects, including ground-up construction projects, bridge loans for single- or multi-family properties, fix and sell properties, and long term rental properties, as shown under “Loans” in the top bar in Figure 40.

Figure 40

Patch Lending diverse crowdfunding opportunities

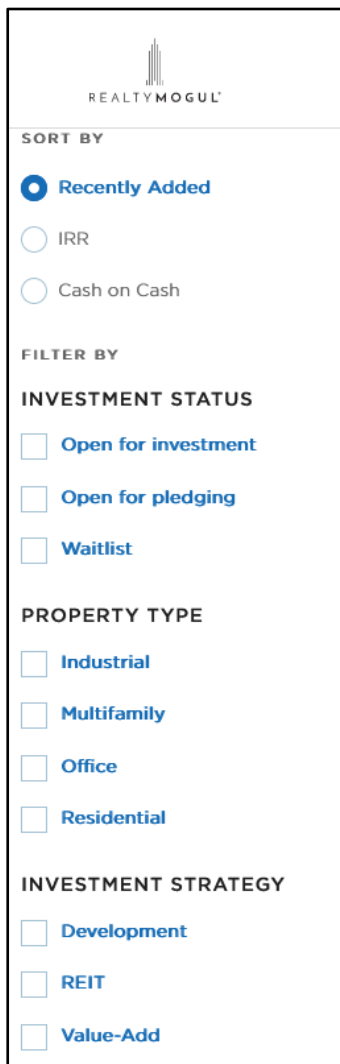


Source: <https://patchlending.com/>

Another example, RealtyMogul offers crowdfunding opportunities in different property types including industrial, multi-family, office, and residential as shown by the searching “sort” function on the platform, shown in Figure 41.

Figure 41

RealtyMogul diverse investment opportunities



The image shows a vertical filter menu for RealtyMogul. At the top is the RealtyMogul logo. Below it is a 'SORT BY' section with three radio button options: 'Recently Added' (selected), 'IRR', and 'Cash on Cash'. The next section is 'FILTER BY', which includes three sub-sections: 'INVESTMENT STATUS' with three checkboxes for 'Open for investment', 'Open for pledging', and 'Waitlist'; 'PROPERTY TYPE' with four checkboxes for 'Industrial', 'Multifamily', 'Office', and 'Residential'; and 'INVESTMENT STRATEGY' with three checkboxes for 'Development', 'REIT', and 'Value-Add'.

Source: <https://www.realtymogul.com/investment-opportunities>

It appears PC platforms in New Zealand have somewhat excessively narrowed down the types of crowdfunding services they offer, thus limiting their potential revenue generating options. As an example, Fulcrum, which failed to take off, was exclusively focused on crowdfunding for development projects. Another example, the Property Crowd, is exclusively focused on crowdfunding for completed residential properties. Drawing from these overseas PC platforms examples, it seems local PC platforms would benefit from broadening their services and do

crowdfunding for a wide range of property types, including development projects, and completed residential and commercial buildings. Although focusing on crowdfunding for one type of property, such as development projects, may help a platform to build expertise in its chosen area of focus, the disadvantage is that it precludes opportunities for crowdfunding for other property types.

In summary, examples of successful PC platforms in USA, UK, and Europe presented above illustrate that some of the challenges New Zealand PC platforms are facing, for instance lack of transparency or information about PC, and lack of full disclosures, can be easily addressed. New Zealand PC platforms can create “knowledge centres” on their websites, so that the general public/prospective investors, can read the information. The local platforms can also provide some information on metrics that indicate their performance, or some key statistics, such as those shown on PC platforms from other countries where PC has succeeded. When the public see how the platforms are performing, they will have confidence about investing in PC and about the platform, and will be able to make decisions to participate on the platforms. Understandably, at present, this may be difficult for the New Zealand PC platforms because they are in a dilemma: to grow their platforms they need some proof of successful crowdfunded projects, but they are struggling to have these first crowdfunding successes.

In summary, Section 6.7 has shown that overseas PC markets have taken certain measures to avoid the limitations and problems currently affecting New Zealand PC platforms. New Zealand PC platforms can emulate, and learn from what successful PC platforms in the USA, such as Fundrise, RealtyMogul, CrowdStreet, and Patch Lending; and in Europe and UK, such as EstateGuru, Property Partner, Rendity, LendInvest are doing, and specifically how they addressed the particular issues the local PC platforms are struggling with. This would require

New Zealand PC platforms to carefully study the overseas PC platforms to see how they avoided each of the challenges the local platforms are facing. Table 12 presented earlier summarized some of the key information PC platforms can use.

This analysis suggests that the challenges PC platforms are facing can be solved, though this will require a lot of work by PC platform founders and managers. A concerted effort by the different stakeholders is also required to address the broader challenges PC is facing in New Zealand, such as lack of education about PC, and PC legislation.

Drawing from the analysis of successful PC platforms from advanced PC markets as presented in this section, as well as from the data from interviews, and from the literature, specific suggestions for addressing the challenges currently impacting PC platforms will be presented in the subsequent Chapter 7.

6.8 Future outlook of PC in New Zealand: Empirical data analysis and discussion

This study has shown that PC in New Zealand is facing a wide range of challenges and issues which are affecting its growth. Data presented in Chapter 5, and earlier discussions in this chapter seem to indicate a rather bleak and unpromising picture for PC in New Zealand. Further, data presented in Chapter 5 is centred around the five sub-research questions of this study. This necessitated adding to the discussion what the future outlook for PC in New Zealand might be, so as to offer a more balanced discussion. Thus, it is important to present and discuss the research participants' viewpoints on the future outlook of PC in New Zealand. At the end of each interview, before closing the interview, each interviewee was asked the question: *If we were to meet five or ten years from now, where do you think PC in New Zealand*

will be? The aim of this question was to get the research participants to speculate on the future prospects of PC, and forecast the future outlook of PC in New Zealand within the next five or ten years, based on their knowledge and experience. The findings for this specific interview question are presented, and implications discussed, in this section.

The FMA has put significant effort and resources into incorporating crowdfunding regulations into the NZ financial markets legislation, and into the process of issuing PC licences. Further, several New Zealand entrepreneurs have invested money, time and effort into founding PC platforms, and are continuing to work on these platforms to get them to succeed. Furthermore, as presented in previous chapters of this thesis, numerous executives in property, banking, and finance, among others, have given time and effort to try and assist New Zealand PC platforms to grow. This study has uncovered a wide range of underlying reasons why all the effort and resources which have been put into building the PC sector in NZ have so far failed to yield notable results. While the challenges confronting PC in New Zealand identified in this research seem to suggest that the outlook of PC in New Zealand appears to be dismal and unpromising; most of the challenges are not insurmountable, though serious effort will be required to tackle these problems, in order for PC to grow in New Zealand. Section 6.7 has shown how some of the challenges could be easily addressed. A discussion of the probable outlook for PC in New Zealand is therefore important to provide a more thorough and fuller picture, and understanding of PC in New Zealand.

Overall, some of the research participants had a positive and optimistic view of the future of PC in New Zealand, even though there are challenges PC platforms must seriously consider and address. Research participants believed that, despite the challenges PC is currently facing in New Zealand, this sector has potential to grow in the future, supported by several

fundamental factors, as summarized in Table 14 and illustrated in Figure 42. The research participants also suggested other secondary factors that may support PC growth in New Zealand, as illustrated in Figure 43.

Table 14

Reasons why PC has potential to grow in the future in New Zealand

Reasons why PC has potential to grow in the future
<ul style="list-style-type: none"> ▪ PC is a “compelling product” ▪ High returns on property ▪ New Zealanders have an affinity for property ▪ PC platforms give access to investing in property to more people ▪ PC will grow if it can play a role in addressing the housing challenges in New Zealand ▪ PC platforms can grow if they focus on helping to increase home ownership amongst New Zealanders by assisting first homebuyers to get the deposit they need to borrow from banks ▪ PC has potential to grow because it can help small-scale developers, who may have difficulties with equity or borrowing from banks, to raise capital; platforms will grow as builders start to use PC platforms to raise capital for their projects ▪ PC platforms can grow through private-public partnerships in residential property development in New Zealand ▪ The growing popularity of the concept of ‘sharing economy’ will support PC growth ▪ After PC has built momentum, and there are “good news stories”/“success stories”, PC can become “mainstream” ▪ As more people use PC platforms, this will support the acceptance of PC; will help PC to enter the mainstream market, and become one of the recognized financial services providers in New Zealand ▪ PC will grow supported by the large, rapidly growing global crowdfunding industry. This will likely attract the interest of traditional financial institutions seeking to be part of this large industry, leading to collaboration between banks and PC platforms, which in turn may help the platforms to grow ▪ New Zealanders will become interested in PC after they have seen the sector develop, and PC has proved to be a valid model, and this takes time ▪ Concerted effort by the PC sector to increase market awareness and educate the public will help PC to grow in New Zealand ▪ PC platforms may potentially collaborate with real estate agents, and this will help PC to grow ▪ However, PC growth will likely be slow as it take time to build a track record of successful crowdfunded projects

Figure 42

Key drivers of PC growth in New Zealand

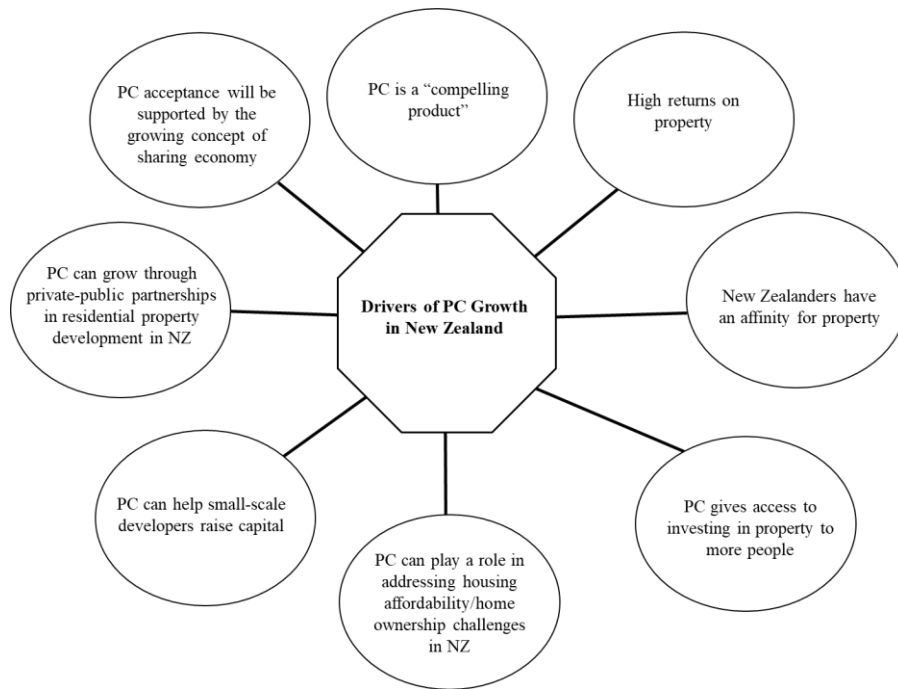
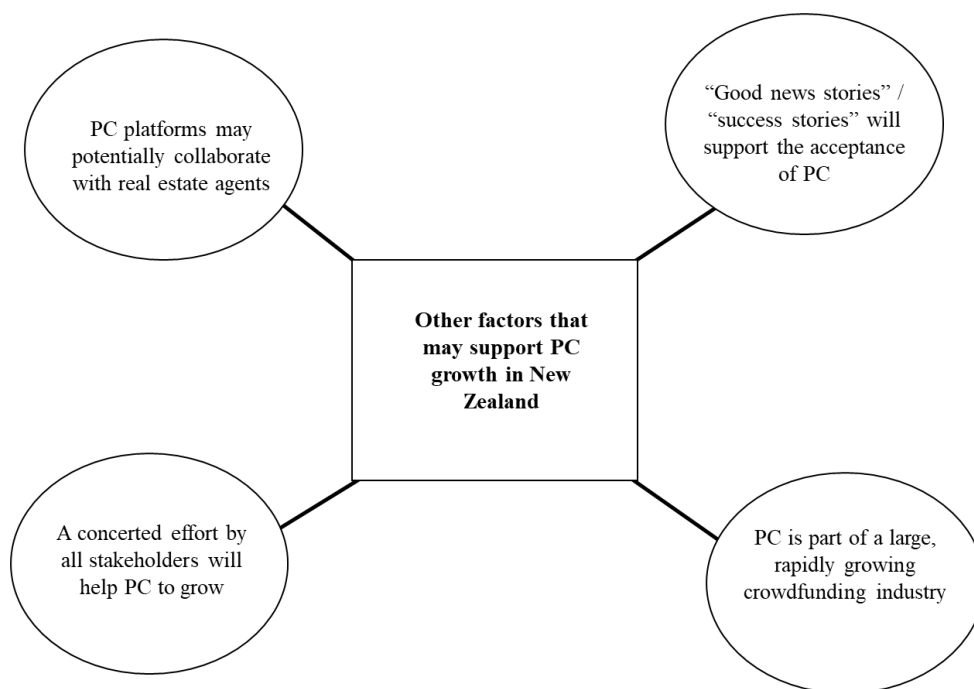


Figure 43

Other factors that may support the growth of PC in New Zealand



Data from interviews on the drivers and supportive factors of PC growth are presented, and their implications discussed, below.

PC has potential to grow in New Zealand because it is a “compelling product”; property offers high returns, and New Zealanders have affinity for property

Interviewees believed that despite the challenges which PC platforms are currently facing, PC in New Zealand has potential to grow because it is a “compelling product”; property offers high returns, New Zealanders have affinity for property, and PC gives access to property investing to more people. This argument was best summarised by one interviewee who expressed:

“I think property crowdfunding has potential to grow, it is a compelling investment product, because the investment returns on property are quite large. Kiwis have always had an affinity for property, and it makes it accessible to a far larger proportion of the population. I just think it would probably require the right party to really take it on, a credible party and someone who had the ability to build scale quickly on the platform.”
(P7)

Another interviewee echoed the same sentiment by pointing out that PC can be profitable, despite the likely long waiting time to get returns, stating:

Property crowdfunding can be quite lucrative, but you might be waiting a long time. So it's certainly not going to suit the average New Zealander I don't think. (P28)

The illustrative comments by P7 and P28 above suggest that PC has potential to grow in New Zealand given the (previous and) anticipated strong growth of the construction industry driven by demand for housing. This will drive demand for development finance; entice new, small-scale developers to get involved (who will likely need to use platforms), and provide more

property investment opportunities for the general public. All these factors will potentially support the growth of PC platforms in New Zealand in the future. This is in accordance with research by Schweizer and Zhou (2017) which found that the general public investors' interest in property investments via PC supported the growth of PC in the USA. During the past decade, New Zealand house prices have increased rapidly, supported by low interest rates and constrained housing supply, resulting in strong returns on property investing, and this has strengthened New Zealanders' interest in property investing (Yiu et al., 2022). This will support PC platforms' growth in the future since PC platforms provide another way of investing in property.

PC will grow if it can play a role in solving the housing challenges in New Zealand

Some interviewees believed that interest in PC will grow in the next few years because of the challenges which the housing sector in New Zealand is facing, namely housing affordability. If the platforms could in some way play a role in addressing these challenges, and help first time buyers or long-term tenants, then interest in PC will increase, thereby helping the PC sector to grow. As an illustrative excerpt, a CEO of a residential crowdfunding platform commented:

“Property crowdfunding in New Zealand has got the potential to grow in the next few years, and it comes down to housing pain and discomfort in New Zealand. Eyeballs will be on this. I mean eyeballs interested on this because of the housing pain that we’re experiencing. The time is right... It’s everywhere, whether you’re a tenant or first time buyer. If you are going to suggest that you have a solution of some sort, then people will look at you. So I think property crowdfunding has the potential for growing very rapidly in the future.” (P9)

This suggests that housing challenges in New Zealand may drive PC growth in the future. This is in accordance with earlier research that demonstrates that PC has been used as a progressive

financing tool to address current problems of home ownership for people struggling to secure mortgages through conventional means in Australia (Sharam & Bryant, 2017), Malaysia (Chin et al., 2021), and Brazil (Cymbalista et al., 2021), among others.

PC platforms can grow if they focus on helping to increase home ownership amongst New Zealanders by assisting first homebuyers at the beginning to get the deposit they need

Some research participants from banking believed that PC platforms can grow if they focus on addressing the issue of home ownership; and banks will be keen to work with PC platforms if the platforms were going to be part of the solution to home ownership. As one participant, a senior executive at one of the main banks in New Zealand, stated:

“We're ready to help the homeowners. ... If we can help more New Zealanders to find places they can truly call home and if crowdfunding can be a part of that, bring it on, that's great news as far as [Bank X] is concerned. I don't know about other banks, but we were happy about that.” (P1)

Similarly, some research participants believed that platforms and banks can collaborate to help first home buyers raise their deposits from the platforms, and then get a loan from the bank. In doing so, banks will make a ‘positive contribution’ to their communities by helping to address the housing affordability crisis New Zealand is facing. As one of the interviewees expressed:

“If the bank wants to take some social responsibility and wants to make some positive contribution to society, to communities, I think they need to work closely with crowdfunding platforms. They have to set up a new business model that can help a lot of the first home buyers to use the crowdfunding platform to get enough deposit So the bank and the crowdfunding platforms will assist at different stages of financing, the crowdfunding platforms can help the first home buyers at the beginning to get the deposit they need, then the bank will give the future support at the end of the financial transaction, providing the mortgage loan.” (P11)

The arguments by P1 and P11 suggest that PC in New Zealand can grow if it plays a role in solving the home ownership problems the country is facing. This is in accordance with previous DIT studies which suggest that, for a new innovation to succeed and have an impact in a market, it must begin with targeting only a niche or lower end of the market consisting of customers whose needs have been overlooked or neglected by established firms in an industry, and thus solve a particular problem for them, or provide a product/service they are struggling to get (Bower & Christensen, 1995; Christensen, 1997). This suggests that if PC platforms were to focus on helping first-home buyers who are struggling to borrow from banks, this will enable PC to be commercially viable and succeed. This is also in line with studies that have highlighted the problems first-home buyers face in accessing mortgage loans in New Zealand due to lack of adequate deposit (McLeay, 2022).

PC has potential to grow because it helps developers to raise capital

Some research participants believed that PC platforms will grow because they can help small-scale, or financially challenged developers to raise funding for their projects, who may have difficulties with equity or borrowing from banks. As a PC platform manager expressed:

“Property crowdfunding can offer developers an opportunity to raise capital in order to build new houses. ... We can do capital raise for developers who are struggling to raise money or to borrow money from banks because they don't meet the criteria. We can offer an alternative source of capital for the build.” (P9)

Another participant supported this argument, stating:

“Developers who need development funding can use crowdfunding, because crowdfunding allows developers to raise funds on the market from not only one person but from many people who got interest in the project.” (P11)

The theme of PC focusing on small developers was reiterated by yet another interviewee who previously worked for Fulqrum, a development property crowdfunding platform that failed to take off, who explained that the goal of his platform was to help small-scale developers get funding for their projects. As the interviewee explained:

“I was involved in property crowdfunding venture that never got off the ground. ... Because there are a lot of financiers focused on large development, our venture (Fulqrum) was focused on small development. So, you could take 800, 1000 m² section, which is a quarter acre section, take off the house, and maybe put three or four townhouses in that same spot. And big financiers wouldn't be interested in such small deals, so what we were creating was a crowdfunding platform to enable the owner of that original site to obtain bank funding because banks would only lend you maybe only 60%, so the platform would assist you with coming up with the rest of finance to enable the house development to continue. So that's what our idea was. And that would increase the supply of property to first home buyers eventually and increase the options.” (P27)

Another respondent believed that, the PC sector in New Zealand needs to continue to work on refining and ascertaining the role it will play in the real estate finance industry, particularly in helping small scale developers. When asked whether PC will grow in the next five to ten years, the interview stated:

“It'll get there.” (P6)

Thus, despite the challenges PC platforms are currently facing, research participants believed that the platforms could help small-scale developers, and this will support the platforms' growth in the future. This is in line with research by Hindriks (2015) which found that PC platforms helped small-scale developers in the Netherlands to raise the capital they need.

PC platforms can grow through private-public partnerships in residential property development in New Zealand

Some interviewees argued that PC platforms can grow through private-public partnerships (PPP) in residential property development in New Zealand. PC platforms offer an opportunity for PPP in residential property development, whereby platforms, banks, and the government can work together to help improve residential property development. Equity crowdfunding from platforms, which is currently capped at \$2m per year for a developer, can be used to “unlock” larger amount of funding from the banks, and housing funding from the government, and this can boost residential development in New Zealand. This idea was best summarized by one interviewee, a bank lending executive who explained:

“The funding evolution that I envision is in the woven relationships between many people, groups and funding sources. Playing on the established idea of Private Public Partnerships, how could a process like that be redesigned so that the sequence goes: 1) a private company with a property vision raises equity from their crowd, which 2) unlocks a loan from a bank, which 3) releases funds from government (local and/or central)?” (P3)

The interviewee further explained that, collaboration between platforms and banks can help improve residential property development in New Zealand:

“The \$2 million equity raised from the platform unlocks another \$6 million from a bank. So I think that's, in my mind, that's where equity crowdfunding sits at the moment, as the most effective way to complement residential property development.” (P3)

PC platforms can grow through private-public partnerships in residential property development in New Zealand. This is in line with a study by Maseke and Liseli (2022) which found that private-public partnerships are effective strategies for delivering housing development

projects. The finding is also consistent with research by Sedlitzky and Franz (2019) which, based on case studies and crowdfunding platforms in USA and Europe, found that civic crowdfunding is an effective alternative financing tool for small to medium-sized urban development projects and housing projects, in private-public partnerships involving governments, communities, and private actors/private funding. For New Zealand, future studies will be required to explore how PC can be used in PPP strategies to solve residential housing development challenges.

The growing popularity of the concept of ‘sharing economy’ will support the growth of PC

Some research participants believed that PC’s growth in New Zealand will be supported by the rising popularity of the concept of ‘sharing economy’. This argument was best captured by an interviewee who stated that PC involves shared ownership of a property, and this appeals to millennials, and can support PC growth in the future:

“The young, the millennials, and all of that, the concept of the sharing economy, they're more comfortable with it than people of my age. So they go share cars, they share the houses through for example Airbnb, they do all of that. Well, the concept of sharing an investment property is probably going to be easier for the next generation than the old generation.” (P13)

This is supported by prior research which has shown that the concept of ‘sharing economy’ is popular particularly among the millennials (Godelnik, 2017). Therefore, this may support the growth of PC not only in New Zealand, but also globally.

“Good news stories” / “success stories” will support the acceptance (and knowledge) of PC in the future

Interviewees were of the view that it takes time to make a new innovation mainstream; thus to grow PC in New Zealand and make it mainstream, there is a need to continue working on promoting the platforms and publicising successful property crowdfunded projects, and create ‘good news stories’ about PC. As one interviewee stated:

“I think making any new concept mainstream requires figuring out ways of getting good news stories out there, success stories, showing how property crowdfunding can be easy to do. And then actually working on creating platforms and building the momentum, and just focusing on it. You know, it takes years to get new things into mainstream.” (P10)

As previously stated in Section 6.3, crowdfunding and PC began in the USA and UK in 2012. Over the past decade, PC platform founders in these countries have consistently worked on their platforms, to the levels they are today. Thus, since the first New Zealand PC licence was issued in 2016, it is arguably still too early to deduce that PC in New Zealand has failed. In these early stages of developing PC in New Zealand, platform founders and managers must continue to work on the platforms and ‘build the momentum’ as P7 above expressed. The finding that it may take time for PC to become mainstream in New Zealand is in accordance with the DIT literature which posits that when a new innovation enters a new market or industry, it may take many years for it to have an impact in the industry (Christensen, 1997; Si & Chen, 2020).

Research participants believed that although the PC sector is currently very small; educating people about it, and promoting it, will help the sector to grow and become a viable, accepted

financing and investment tool which people fully understand. This was best summarized by participant P10 who explained:

“I think that in five years’ time, what we’ll hopefully see is property crowdfunding as a mainstream tool that we’re using. ... Hopefully in five years’ time, property crowdfunding is a tool that people understand, they understand both the risks and the benefits of using it. And it’s an accepted tool that people can use, and they know why they would use it.” (P10)

The comments by P10 above highlight the need for educating the New Zealand public about PC. Once the New Zealand public understand PC, and start using it, the “good news stories” will further support its growth.

PC will grow supported by the large, rapidly growing global crowdfunding industry

Some interviewees pointed out that PC is a niche of the broader crowdfunding industry which has grown fast in recent years, and is forecast to be worth billions of dollars in the next few years. It is likely that traditional financiers of real estate such as banks will want to be part of this large industry; they will want to collaborate with the platforms, thereby helping platforms to grow. This view was summed up by one interviewee who expressed:

“Looking at some of the numbers that have been stated around the potential growth in the crowdfunding space, they forecast that by 2025, crowdfunding will be a \$300 billion industry. So, that’s very large industry, which I would assume that, traditional financial institutions would want to be involved, they would want to work with crowdfunding platforms.” (P10)

The comment by P10 suggests that PC has potential to grow, supported by the broader large, rapidly growing global crowdfunding industry. If New Zealand banks were to collaborate with PC platforms, this may help platforms to grow.

New Zealanders will become interested in PC after they have seen the sector develop, and PC has proved to be a valid model, and this takes time

Some interviewees thought that, despite the current challenges, in ten years' time, after people have seen PC grow and succeed as a valid model, they may become interested in it. As one interviewee explained:

“Maybe in 10 years’ time when people have watched the property crowdfunding space develop, seen that it has worked, it has succeeded as a valid model, maybe then you’ll get people taking an interest. But currently the average Kiwi with any level of savings, if they ask their financial advisor, their accountant, their lawyer, have you heard about property crowdfunding? What do you think? All of us in the industry, we wouldn’t have seen much of it either. So people will shy away from it [property crowdfunding] because it just hasn’t had that track record in New Zealand, compared to the track record it has had in other jurisdictions. So that’s tough.” (P26)

Similarly, another interviewee pointed out that New Zealanders are slow adopters of innovations because they are conservative investors:

“I think it’s a timing thing. It’s like, New Zealand tends to follow other major markets about 10 years later. We are late adopters when some of these other things come on. We’re very fast adopters when it comes to things like Eftpos and consumer stuff. But when it comes to investment, I think New Zealanders are very conservative.” (P25)

Interviewee P26’s argument above suggests that establishing PC and proving it as a valid model is a long process; it will take time for the PC sector to grow, and to be fully accepted. P25’s comment suggest that because New Zealanders are conservative investors, it may take ten years for them to accept PC as an investment tool. It has eight years since the first PC licence was issued, and two of these years were ‘lost’ due to the impact of Covid-19 which impacted all businesses. This suggests that there is potential for PC to grow in the future.

Concerted effort by the PC sector to increase market awareness and educate the public will help PC to grow in New Zealand

Some research participants were of the view that although PC is currently small, it has potential to grow, but a lot of market awareness work will need to be done by the sector as a whole. As one interviewee remarked:

“Property crowdfunding does have the potential to grow. It's such a small marketplace as it currently stands, but has every chance to grow and be more prominent, but that takes a certain level of market awareness that I don't think anyone provider (platform) can necessarily achieve.” (P. 27)

The above comment by P27 indicates that PC platforms must work together to promote PC and educate the public in New Zealand. This may involve running advertisements/promotion campaigns about PC together, and sharing the costs. During field research when I was conducting interviewing, it appeared there were no combined or collaborative efforts among platforms owners to increase PC's market awareness in New Zealand. Each platform manager/founder seemed to be promoting their own platform. A joint effort by the PC sector to increase market awareness and educate the public will enable PC to grow in New Zealand.

PC platforms have potential to grow if they can find a way to collaborate with real estate agents

One of the interviewees, a PC platform founder/CEO, argued that platforms may consider collaborating with real estate agents, as this may benefit both parties. The interviewee explained:

“A couple of things. The real estate agents can use the platform as an alternative means of selling a property. ... So one option is an alternative way of sale. The second, which

is for me pretty out there, but very interesting is that, we can offer agents the option of selling down parts of a house. So they can actually help us find the buyers or the investors. So what I'm interested in, at some point, ... is that we have a house on the platform that needs funding or selling, and we could go to real estate agents and they all have their own networks of people that they have on their database. And I could say to them, why don't you, instead of selling a whole house, look at selling a part of a house for us. And by doing that, you can gain your commission that way. ... because to sell one house is very difficult, particularly in the market right now. But if you sell a part of a house, I'm sure you have investors or buyers on your books who will be interested in buying a part of a house. Find us buyers and you can make commission on that part.” (P9)

This suggests that by working with real estate agents, PC platforms may be able to grow since the literature suggests that new firms can improve their legitimacy and reputation by working with established companies in their industry (e.g., Petkova, 2012; 2016; Zimmerman & Zeitz, 2002).

PC may take a small share of the market in the future, as more people appreciate/recognize the benefits PC offers

A few interviewees thought that in five years' time, PC may potentially take a share of the real estate projects finance market once people accept it, and this will help to bring PC into the mainstream, and make the platforms part of the accepted financial providers. As one interviewee explained:

“In five years' time, I think property crowdfunding will take a certain part or share of the property market because more and more people will realize the value of crowdfunding. Because in New Zealand, I've seen that things move forward slowly. So it will take time for people to accept property crowdfunding. But as more and more

people participate in crowdfunding property and start to use the crowdfunding platforms, that will influence the mainstream New Zealand market... So in five years' time, I kind of see that probably crowdfunding will become a part of the financial providers, in the mainstream market, for those people who want to use it.” (P11)

PC has a potential to own a share of the real estate finance market, although small. As more people use PC platforms, this will support the acceptance of PC, cause PC to enter the mainstream market, and become one of the recognized financial services providers in New Zealand. This finding is consistent with DIT literature which postulates that new innovations enter markets in stages and it takes time for them to enter the main market after being introduced in the lower part of the existing market (e.g., Adner, 2002; Christensen et al., 2002; Van Orden et al., 2011).

Currently, PC platforms have numerous limitations which will hinder their acceptance, if these limitations are not addressed. This is in line with prior DIT research which found that, after entering the lower part of the market in phase one, before the new innovation can move up in the market to phase two, namely main market entry, it must improve its model and the quality of its products/services so that it can start to attract customers from the middle segment of the market (Christensen, 1997; Christensen & Bower, 1996). The new innovation must gradually improve its performance while still in lower end of the market, which can enable it to start to gain customers' acceptance, and move into the main market (Christensen et al., 2015). This suggests that for PC to grow, become accepted, and move into the mainstream market, it must address the limitations identified in this study, so that it can become appealing to more mainstream customers.

PC growth will likely be slow as it take time to build a track record of successful crowdfunded projects

Some interviewees believed PC will only grow slowly because it's a new concept that people need to learn about. Because it's a new concept, closing the first few 'crowdfunded deals' will be a difficult and slow process for platforms, but thereafter, it will steadily grow. As one interviewee explained:

"I think property crowdfunding does have the potential to grow, but it will not grow rapidly. It has the potential to grow, but it won't do it very quickly. Because it's such a new concept that a lot of people will have to spend quite a bit of time to get their heads around it. And like I said, the first few crowdfunded deals on the platforms are going to be difficult, but then after that it should be fine. ... And that's what I've mentioned before about the things taking a bit of time. So I think it can grow, but it won't be very fast growth" (P 29).

Interviewee P29's comment highlights the importance of a having a track record of successful crowdfunded projects, which platforms are still struggling to have.

Overall, research participants believed that, despite the wide range of challenges PC platforms are facing, the platforms have potential to grow in the future, supported by several factors. PC is a "compelling product" that offers high returns and New Zealanders have an affinity for property. PC has potential to grow because it can help small-scale developers, who may have difficulties with equity or borrowing from banks, to raise capital. PC platforms give access to investing in property to more New Zealanders. After PC has built momentum, and there are "good news stories" and "success stories", PC has potential to become "mainstream". As more people use PC platforms, this will support the acceptance of PC, will cause PC to enter the mainstream market, and become one of the recognized financial services providers in New

Zealand. PC will grow supported by the large, rapidly growing global crowdfunding industry. This will likely attract the interest of traditional financial institutions seeking to be part of this large industry. This may lead to collaboration between banks and PC platforms, which in turn may help the platforms to grow. New Zealanders will become interested in PC after they have seen the sector develop, and PC has proved to be a valid model, and this takes time. Combined effort by the PC sector to increase market awareness and educate the public, and raise its profile as a financing and investment tool, will help PC to grow in New Zealand.

PC will grow if it can play a role in addressing the housing challenges in New Zealand. PC platforms can grow if they focus on improving home ownership in New Zealand by helping first home buyers. The rising popularity of the sharing economy will support the growth of PC. PC platforms can grow through private-public partnerships in residential property development in New Zealand. But, the PC growth will likely be slow as it takes some time to create a track record of successful crowdfunded projects.

As presented above, PC has potential to grow in New Zealand. Research participants were cautiously optimistic – while they believed PC has potential to grow in New Zealand, they also emphasized that challenges exist. This study has established that a wide range of challenges are hampering the growth of PC in New Zealand. This, then, raises critical questions: How can New Zealand PC platforms address the issues identified in this study? If the PC platforms fail to resolve these issues, what will happen to PC in New Zealand? Section 6.7 has already shown that some of the problems identified in this study can be addressed. Recommendations for how PC in New Zealand may successfully tackle and solve the problems impacting PC in New Zealand, as identified in this study, will be presented in Chapter 7.

6.9 A revised conceptual framework of PC in New Zealand

This section presents the amended conceptual framework of property crowdfunding in New Zealand. This revised conceptual framework is a culmination of (a) review of extant literature which facilitated the creating of the initial conceptual framework presented in Chapter 2, and re-presented in Figure 44 below, (b) findings from knowledgeable and experienced stakeholders who participated in this study, whose insights were used to expand and update the initial conceptual framework, and (c) the discussion of findings using the literature. The initial conceptual framework which was informed by the literature review and developed at the initial stages of the research provided a foundation to the research process. It was used to construct and frame sub-research questions and subsequently to develop interview questions. At the time when the initial framework was constructed, there was no extant New Zealand PC research, and this is reflected in the simplistic or basic nature of the initial framework (as shown in Figure 44), which shows lack of in-depth understanding of PC. However, the initial framework was useful because it guided the collection of detailed data which facilitated more in-depth understanding of PC in New Zealand, as reflected in the more elaborate revised framework created in the later phases of the research process, as presented in Figure 45. According to Jabareen (2009), a conceptual framework can help scholars better understand a phenomenon; it can advance knowledge about an under-researched and under-theorised phenomenon. Accordingly, this study advanced a conceptual framework of PC in New Zealand, a phenomenon that has so far remained unresearched within this context.

The amended conceptual framework, as presented in Figure 45, posits that the current state of PC in New Zealand is nascent and small, and the growth of PC is currently hampered by numerous PC platform limitations, namely lack of (a) transparency, (b) due diligence, (c) exit

strategies and/or secondary markets, (d) scale and diverse properties, and (e) “crowds” of investors ready to invest on the platforms. The growth of PC in New Zealand is also being hindered by several contextual factors, categorized as follows: (a) property developers, investors, and the construction industry, (b) cultural and behavioural factors, (c) regulatory framework for PC, and (d) population and income factors. The conceptual framework also advances three alternative response strategies which incumbents may use towards PC, namely, (a) ignore PC, (b) collaborate with PC platforms, and (c) strengthen own business model, products and services. Despite the challenges PC platforms are currently facing in New Zealand, some research participants were optimistic about the future prospects of PC in New Zealand, as presented in Section 6.8. Accordingly, the amended conceptual framework also advanced suggestions on how to successfully tackle and solve the key PC platforms problems identified in the interviews data, as shown in Figure 45, and elaborated in Figure 46.

Figure 44

Initial conceptual framework of PC in New Zealand

**The challenges and contextual factors affecting property crowdfunding in New Zealand,
and the response strategies of the real estate project finance industry**

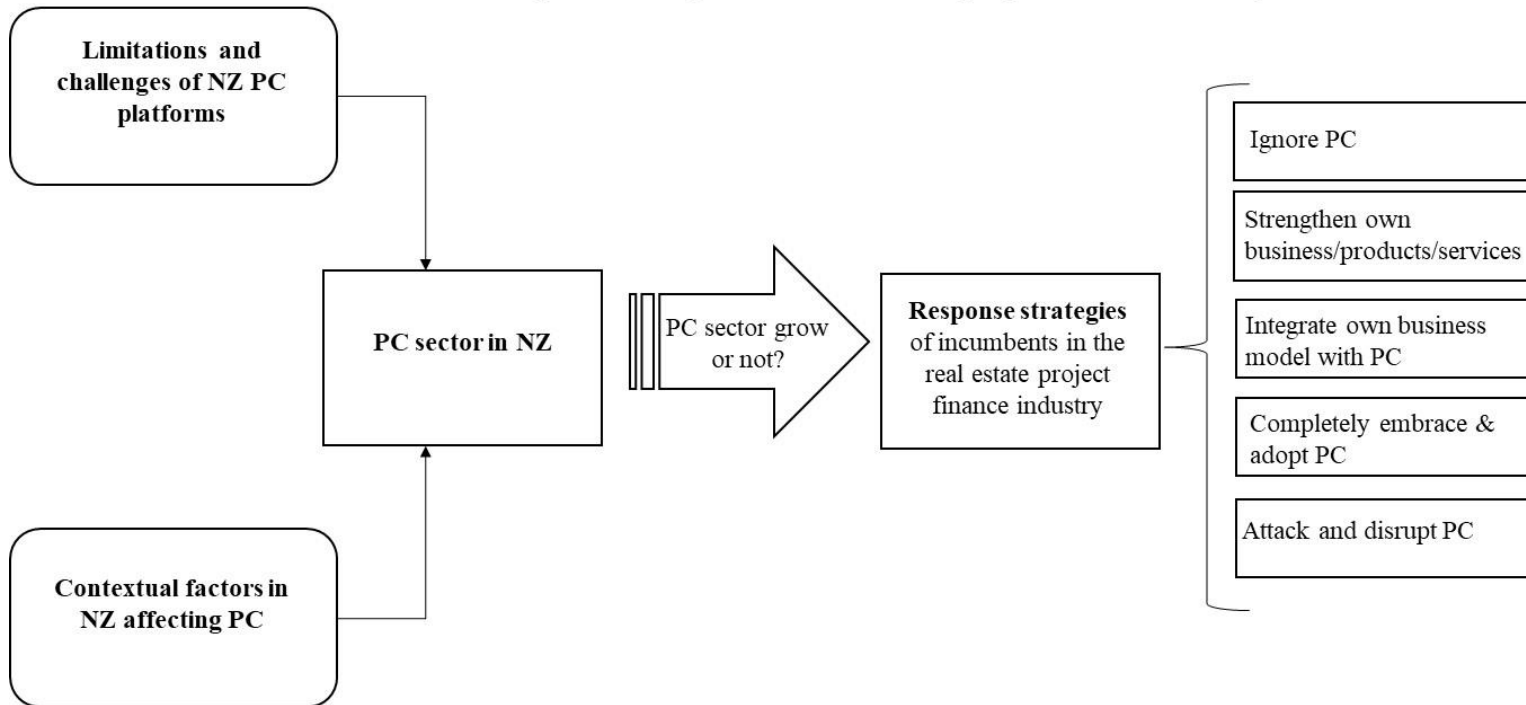


Figure 45

A revised conceptual framework of PC in New Zealand

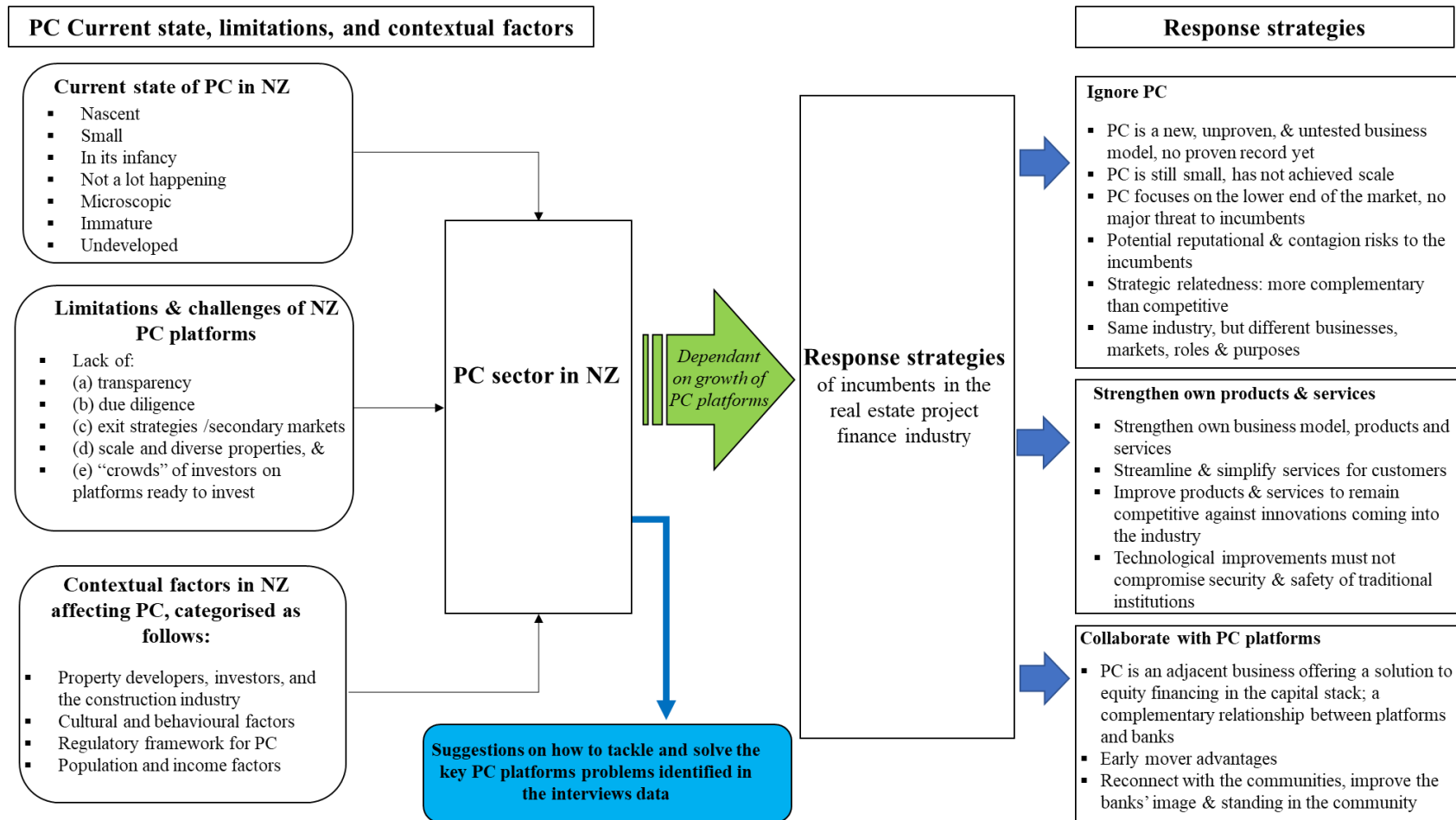
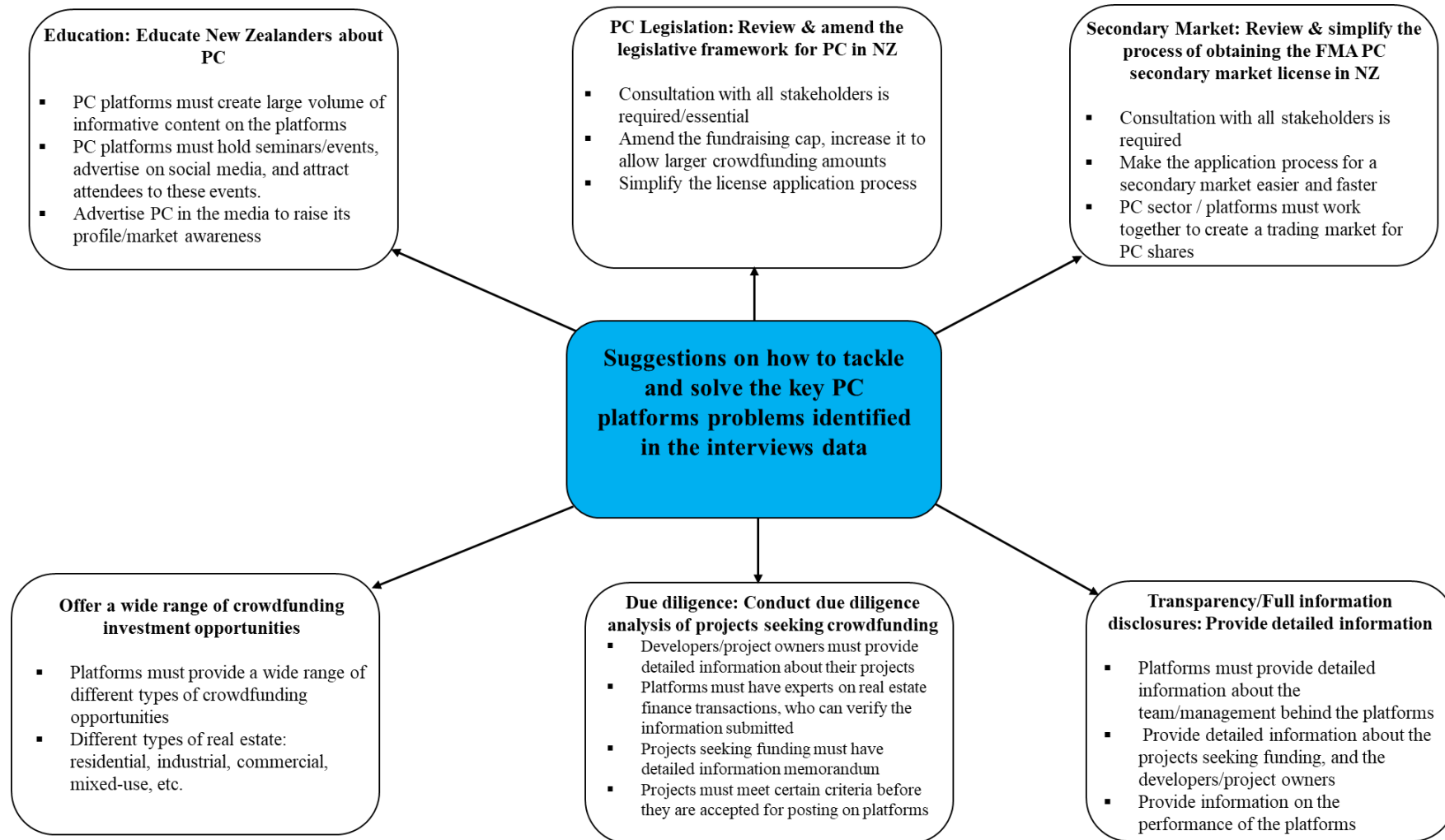


Figure 46

Conceptual framework extension: How to solve PC problems identified in this study



The amended framework presented in Figure 45 (and extended in Figure 46) differ from the original framework presented in Figure 44 in five ways. First, unlike the initial conceptual framework which was formulated based on literature review, the revised framework specifies the characterization of the current state of PC in New Zealand: it is in its infancy; very small and nascent, unknown and marginalized. The current state of PC was not included in the initial conceptual framework, and the description of the current state could not have been drawn from the literature since there is no prior literature on this. Second, also unlike the initial conceptual framework, the amended framework shows that PC in New Zealand is facing several limitations, namely: lack of: (a) transparency, (b) due diligence, (c) exit strategies and secondary markets, (d) scale and diverse properties, and (e) ‘crowds’ ready to invest. No prior studies had yet examined the limitations of PC platforms within the context of New Zealand; interview transcripts uncovered these limitations, and this led to the revision of the initial conceptual framework by specifying these limitations. Third, based on insights from the research participants, the revised framework specifies the contextual factors impacting PC in New Zealand, categorized as follows: (a) construction/developers, (b) cultural/behavioural factors, (c) regulatory framework, and (d) population and income. Again, the initial framework, built from the literature review, did not identify the specific New Zealand contextual factors impacting PC, since this has not been investigated in the extant literature. Thus, unlike the initial conceptual framework, the revised conceptual framework elaborates on the particular contextual issues affecting PC in New Zealand.

Fourth, the revised conceptual framework illustrates that there are only three logical responses incumbents may use towards PC, namely (a) ignore PC, (b) collaborate with PC platforms, and (c) strengthen own business model/products/services through incremental innovation. The amended framework presents the rationale for these three strategies. As presented in Chapter

2, the DIT literature suggests a wide range of response strategies incumbents may use when potentially disruptive innovations enter their markets, and these were shown in the initial conceptual framework, in Figure 44. However, the revised framework only shows three response strategies. Based on the perspectives offered by the research participants, and a discussion of the data using the extant literature as presented in this chapter, the initial framework was amended to have only three response strategies, as these were considered the most logical and practical responses, in consideration of how PC has fared in New Zealand, specifically the challenges it is facing which have so far hampered its growth.

Lastly, the revised conceptual framework extends the initial framework by advancing suggestions and recommendations on how to successfully tackle and solve the key PC platforms problems identified in the interviews data, as presented in Figure 46. The initial conceptual framework had a question: “*PC sector grow or not?*”, as shown in Chapter 2 and in Figure 44. The wide range of challenges PC platforms in New Zealand are facing necessitated analysing and recommending how these challenges could be addressed, so that PC platforms can grow. In order for the PC sector in New Zealand to grow, the challenges identified in this study must be addressed. Accordingly, based on data from interviews, and analysis of PC platforms from successful overseas PC markets, this study advanced several recommendations for PC platforms in New Zealand which can help the platforms to successfully address the problems they are facing, so that they can gain traction and grow. The initial conceptual framework has therefore been revised to include recommendations on how to solve current problems the PC sector are facing, and how to grow PC in New Zealand, as illustrated in Figure 45. The recommendations and suggestions are further elaborated in a new extension of the revised conceptual framework, presented in Figure 46. These

recommendations presented in Figure 46 will be elaborated in the following Chapter 7. As illustrated in Figure 46, some of the recommendations include:

- Review and amend the legislative framework for PC
- Review and simplify the process of obtaining the FMA PC secondary market license
- Improve transparency and provide full information disclosures
- Provide information on the performance of the platforms
- Conduct due diligence analysis of projects seeking crowdfunding
- Ensure that projects meet certain criteria before posting on platforms
- Offer a wide range of crowdfunding investment opportunities
- Educate the New Zealand public about PC
- Advertise PC in the media to raise its profile/market awareness.

Overall, the in-depth comments and observations offered by the research participants permitted a more comprehensive understanding of PC in New Zealand: the limitations of PC platforms, contextual factors hampering PC growth, response strategies incumbents may use, and suggestions on how to tackle and solve the key PC platforms problems identified in the interviews data. This study, and the conceptual framework developed, have shown that a combination of factors have individually and collectively contributed to the (thus far) unsuccessful efforts to grow PC platforms in New Zealand. The following Chapter 7 will present recommendations and suggestions on how this current situation could be improved.

6.10 Chapter conclusion

This chapter aimed to discuss this study's findings on the challenges and contextual factors affecting property crowdfunding in New Zealand, and the response strategies of the real estate project finance industry, in order to develop a more in-depth understanding of PC in New Zealand. As presented in this chapter, the findings are consistent with the extant literature. Drawing from knowledge and insights from experts who participated in this study, the findings have provided a comprehensive understanding of the current state of PC in New Zealand, the challenges PC is facing, contextual factors impacting PC in New Zealand, and the different strategies banks may use to strategically respond to PC. This analysis led to the formulation of a revised conceptual framework of PC in New Zealand. This framework was developed from the initial framework that was built using the literature, which was then updated with data from interviews with a broad range of research participants and the literature. The amended conceptual framework also advances suggestions on how to tackle and solve the key PC platforms problems identified in the interviews data.

The following Chapter 7 outlines specific recommendations and suggestions for how to successfully tackle and solve the problems impacting PC in New Zealand.

Chapter 7 Conclusion

7.1 Introduction

The aim of this research is to advance knowledge on challenges and contextual factors affecting property crowdfunding in New Zealand, and response strategies of the real estate project finance industry. This concluding chapter is organized as follows. Section 7.2 presents an overview of the study and findings. Section 7.3 provides theoretical implications of the study. Sections 7.4 and 7.5 present implications and recommendations for practice, and policymakers, respectively. Section 7.6 presents social implications of the study. Section 7.7 presents the study's limitations and future research opportunities.

7.2 Overview of the study and findings

To achieve this study's objective, qualitative methods were used because they facilitated in-depth analysis of PC in New Zealand. A lack of time series data due to the nascent state of PC also meant that qualitative methods were the most suitable approach. The primary data source for this study was detailed one-to-one semi structured interviews with 31 knowledgeable research participants from diverse stakeholder groups including PC, property finance, and the real estate industry. The secondary data source was numerous public and private documents related to PC. The software NVivo was used to manage and analyse the interview dataset. Deductive and inductive data analysis approach was used following the steps recommended by Bryman and Bell (2011) and Creswell and Creswell (2017).

In this study, disruptive innovations theory (e.g., Christensen, 1997; Si & Chen, 2020) was used to analyse the introduction of PC, an innovative financing and investment tool for property, in New Zealand. The theory was used to analyse the current state and limitations of PC; contextual factors impacting PC growth, and response strategies of incumbents towards PC. In addition, organization legitimacy and reputation building literature (e.g., Petkova, 2012; 2016; Zimmerman & Zeitz, 2002) was used to explain the challenges faced by PC platforms in New Zealand as young entrepreneurial firms with an online platform business model. Literature on legitimacy building in crowdfunding projects (e.g., Frydrych et al., 2014; Kwak et al., 2019) was also used to analyse the challenges PC platforms are facing in successfully crowdfunding projects. An initial conceptual framework was built drawing from the extant literature, and used to guide the research and collect data. Drawing from the findings, a revised conceptual framework was subsequently developed on challenges and contextual factors affecting PC in New Zealand, response strategies of the industry, and recommendations on how to solve the key problems impacting PC platforms as identified in this study.

This study's sub-research questions were focused on definition of PC, current state of PC in New Zealand, limitations of PC platforms, contextual factors impacting PC growth, and response strategies of incumbents to PC. Due to the considerable challenges PC platforms in New Zealand are currently facing, this study also examined whether platforms in successful PC markets faced similar challenges and how they addressed them, in order to determine if the local platforms can solve these challenges. The study also analysed and discussed the future outlook for PC in New Zealand. An overview of findings on these areas follows.

Definition

Findings on the definition of PC were presented in Chapter 5.1 and discussed in Chapter 6.2. Drawing from numerous definitions of PC suggested by research participants, this study advanced additional commentary and clarification for PC, which contributes towards further understanding of PC, and supports and complements definitions in the extant literature (Baldwin, 2017; Schweizer & Zhou, 2016), and the FMA's definition of PC (FMA, 2016).

Current state

Findings on the current state of PC in New Zealand were presented in Chapter 5.2 and discussed in Chapter 6.3. Research participants' description of PC in New Zealand as nascent aligns with the argument in the literature that new innovations usually start as small and marginal players in the markets they enter (Christensen, 1997; Denning, 2016; Si & Chen, 2020). Further, as new entrepreneurial firms, the innovations usually find it difficult to build reputation and legitimacy in the market (e.g., Petkova, 2016). However, the fact that PC in New Zealand has remained nascent eight years after its introduction into the market – albeit with some interruption due to the Covid-19 pandemic – suggests that there are serious issues that are hindering it from gaining traction, as this study has uncovered. It also raises questions whether PC in New Zealand will mature in the future. Interestingly, one research participant argued that in New Zealand, PC is “*a solution in search of a problem*” (P25). If the perception of some New Zealanders towards PC is that it does not solve any specific, real problem; provide any value, fill any gap, or meet any need, this raises the question whether it will actually grow and mature from its current nascent state. As analysis and discussion in Chapter 6.8 shows, many research participants believed that PC can play specific roles, and solve particular problems in New Zealand, which in turn will support its growth. Specific suggestions on how PC can be used to solve specific problems in New Zealand are presented later in this chapter.

Limitations of PC platforms

Findings on current limitations of PC platforms in New Zealand were presented in Chapter 5.3 and discussed in Chapter 6.4. PC platforms in New Zealand lack transparency, due diligence, secondary markets, scale, and “crowds” of investors. This is supported by the argument in the literature that new innovations usually have limited functionalities when they are first launched in the markets (e.g., Christensen, 2006; Ho, 2022; Wessel & Christensen, 2012).

Analysis of platforms in successful PC markets such as USA, UK, and Europe showed that they took certain measures to avoid the limitations which PC platforms in New Zealand are currently facing, as presented in Chapter 6.7. Successful overseas PC platforms avoided or overcame the issues of lack of transparency and due diligence by providing: (a) substantial educational and informational material on their platforms, (b) full information disclosure on projects, and (c) key performance indicators for investments and for the platform. Exemplary platforms which have done this are Fundrise (USA), CrowdStreet (USA), Property Partner (UK), and Rendity (Austria). Leading PC platforms in other markets also avoided or overcame the issue of exit strategies by establishing secondary markets for their platforms, as demonstrated by Property Partner (UK), among others. Successful overseas platforms also avoided the issue of lack of scale and diverse properties by offering a large number of crowdfunding investment opportunities on the platforms, in different types of projects. For example, RealtyMogul (USA) offers a broad range of investment opportunities in industrial, multi-family, office, and residential projects. Similarly, PatchLending (USA) provides investment opportunities in different types of projects/loans, including ground-up construction projects, bridge loans for single- or multi-family properties, fix and sell properties, and long term rental properties. Drawing from successful overseas PC platforms, this study showed that

New Zealand PC platforms can resolve the limitations they are currently facing, and Section 7.4.1 offers specific recommendations for how to do so.

Contextual factors

Findings on contextual factors impacting PC in New Zealand were presented in Chapter 5.4 and discussed in Chapter 6.5. Several contextual factors are hindering the growth of PC in New Zealand, namely the construction industry, cultural/behavioural factors, PC regulatory framework, and population and income factors. These findings are consistent with prior research that shows that the growth of innovations introduced into new markets is influenced by factors in the particular countries or industries, including institutions (e.g., Chesbrough, 1999b), cultural/behavioural factors (e.g., Yu & Hang, 2010), legislative frameworks (e.g., Chesbrough, 1999b; Pinkse et al., 2014), and population and income factors (Havighurst, 2008; Urbinati et al., 2018).

The extant literature showed that PC platforms in mature overseas markets have overcome some of the key factors that are hindering PC growth in New Zealand. For example, better legislative clarity for PC in Italy helped PC to grow (Gigante & Cozzio, 2021). Although the Australian general public had a cautious and conservative attitude towards PC (Lowies et. al., 2017), it appears the platform founders have been marketing their platforms, and this has increased the acceptance of PC, as shown by several active platforms in that market, as mentioned in Chapter 6.7.1. Some PC platforms in the UK customized their services to suit the country's mortgage market and meet specific needs (Gibilario & Mattarocci, 2018), and this enabled those platforms to grow. PC platforms in USA aimed to solve specific problems in their context, for example, giving ordinary people access to investing in large property projects

(Burgett & McDonald, 2013; Schweizer & Zhou, 2017). Overall, by addressing contextual factors that could have affected PC growth, such as legislation and cultural/behaviours, overseas PC platforms have been able to grow. Also, by customizing PC platforms to match their unique contexts, PC platforms in UK and USA have been able to grow. This suggests that, New Zealand PC platforms can solve the contextual factors that are hindering their growth, and Section 7.4.1 offers some recommendations. Overall, despite the limitations of PC platforms, and the contextual factors that are currently hindering the growth of PC in New Zealand, the sector has a positive future outlook, as presented in Chapter 6.8.

Response strategies

Findings on response strategies which incumbents in the real estate project finance industry may use towards PC were presented in Chapter 5.5 and discussed in Chapter 6.6. Data revealed that incumbents can ignore PC, collaborate with PC platforms, or strengthen their own business model, products and services. The finding that incumbents may ignore PC is supported by extant research which states that incumbents can ignore new entrant innovations that do not threaten their business (Charitou & Markides, 2003; Dewald & Bowen, 2010). The finding that incumbents may collaborate with PC platforms is in line with the literature which indicates that collaborating with new entrant innovations can help incumbents to grow their business (Christensen et al., 2002; Geurts et al., 2022; Markides & Oyon, 2010). The finding that incumbents may respond to PC by strengthening their business model, products and services is consistent with previous studies which suggest that when a new innovation enters a market, incumbents can strategically respond by improving their own products/services, in order to increase their competitiveness (Adner & Snow, 2010; Christensen et al., 2004; Markides, 2006). The study found that, currently, the most logical response of banks towards PC

platforms is to ignore them. PC platforms have taken the initiative to contact banks for collaboration opportunities. However, banks believe that it is premature to start considering any collaborations with the platforms. Until PC platforms start to gain some momentum in the market, banks will likely continue to ignore them.

Future outlook of PC in New Zealand

Notwithstanding the challenges which platforms are currently facing, PC in New Zealand has a positive future outlook, supported by several factors. PC platforms offer a new way of financing and investing in property. Real estate is an attractive investment because it offers good returns. This is supported by prior research which has shown that during the past decade, property investing has provided high risk-adjusted returns for New Zealanders, and increased their interest in property investing (Yiu et al., 2022). PC has potential to grow in New Zealand if it is used to address specific problems and gaps in the market, and meet specific needs. For instance, PC can help small-scale developers in New Zealand to raise finance, and this is in line with previous research which showed that, in other countries PC platforms have enabled small-scale developers to raise the capital they need (Hindriks, 2015). PC in New Zealand can grow if it is used to solve housing affordability and home ownership problems, as it has been used to address these issues in Australia (Sharam & Bryant, 2017) and Malaysia (Chin et al., 2021), among others. PC can grow in New Zealand if it is used to help first home buyers raise deposit, a major problem in New Zealand which is affecting home ownership (McLeay, 2022). PC platforms in New Zealand have potential to grow if they follow the examples of PC platforms in other countries which have been used to deliver housing development projects through private-public partnerships (Maseke & Liseli, 2022; Sedlitzky & Franz, 2019). Overall, New Zealand has supporting factors that can result in PC growth in the future.

However, the PC sector must address the challenges it is currently facing, and recommendations for this are presented later in this chapter.

7.3 Theoretical implications

This study addressed specific gaps in knowledge and extant literature, and made several key contributions, as follows.

First, the major contribution of this research is to build knowledge on PC in New Zealand. During the past decade, PC has received substantial interest as an innovative and viable means for funding and investing in real estate projects. PC has grown in key markets such as USA and UK, and has attracted academic attention in these markets. PC has struggled to grow in New Zealand and there have been persistent queries in the New Zealand media about the underlying reasons why (BusinessDesk, 2021; National Business Review, 2018; New Zealand Herald, 2016). To date, there is a lack of research on PC in New Zealand due to the nascent state of the sector. This study filled this knowledge gap by providing in-depth analysis of PC in New Zealand. The study advanced a conceptual framework of challenges and contextual factors affecting PC in New Zealand, response strategies of the industry, and recommendations on how to successfully tackle and solve the PC platforms problems identified in this research. This is the first study to conduct a comprehensive analysis of PC in New Zealand.

Second, following the introduction of PC legislation in New Zealand, several PC platforms were established during the past eight years, and there have been numerous news reports about these PC platforms in the media. However, a comprehensive understanding of the PC sector is lacking. Specifically, there is a lack of knowledge about the current state of PC in New Zealand

because no studies have examined how PC has fared during the past five years, and what its current state is. DIT posits that when a new innovation is launched in a market, it normally goes through a long process which includes getting launched, identifying its target market, getting a “foothold” in the market, and steadily improving its services as it tries to grow into the mainstream market (Christensen, 1997; Christensen & Raynor, 2003). To date, no academic attention has been given to analysing whether PC has progressed or not since its introduction into the New Zealand market eight years ago, and what its current state is. This study filled this gap by uncovering that PC in New Zealand is in its early stages; small, and nascent. This study’s findings revealed factors that are hampering the growth of PC in New Zealand, and how to address them, so that PC can develop from its current nascent state. This study’s findings on the current state of PC in New Zealand complement other studies that have examined PC and its current state in other jurisdictions, such as Spain (Garcia-Teruel, 2019) and Finland (Bogdanova, 2018), among others.

Third, although PC platforms in New Zealand are struggling to gain traction, there is a lack of academic research on limitations of these platforms which are hindering their growth. According to DIT, new innovations typically have some weaknesses when they are first introduced in the market (Christensen & Raynor, 2003). Thus far, no studies have investigated whether PC platforms in New Zealand have any limitations which may help explain PC’s rather poor performance so far. This study filled this gap by uncovering the limitations of PC platforms, as discussed earlier in this thesis. Further, based on analysis of overseas successful PC platforms, and data from interviews, the study advanced recommendations on how to solve these limitations.

Fourth, PC platforms have been successful in overseas markets such as USA and UK, and have impacted the real estate project finance industries in these markets. Prior studies also indicated that PC is an innovation that has potential to impact or disrupt the real estate project finance industry (Cannon, 2014; Crowe, 2016; Gigante & Cozzio, 2021). However, PC is not having any impact in the industry in New Zealand as it is struggling to grow. To date, no studies have investigated how the New Zealand context may have affected the performance of PC, and its potential to impact the industry. This study found that several contextual factors are affecting the growth of the PC sector in New Zealand, as discussed earlier in this thesis. The study has therefore filled the gap in knowledge about contextual factors that have shaped the progress (or lack thereof) of PC in New Zealand. This study complements prior research on contextual factors that impact new innovations (e.g., Antonio & Kanbach, 2023; Chesbrough, 1999a; 1999b; Huesig et al., 2014; Pinkse et al., 2014; Urbinati et al., 2018).

Fifth, this study offered insights on how incumbents in industry may strategically respond to PC. New Zealand PC platforms are currently promoting their services and educating the general public about PC. This suggests that PC may potentially grow in the future. Yet, no studies have examined how the industry may strategically respond to PC. This study therefore filled this gap by identifying the three response strategies incumbents may use towards PC, as discussed earlier in this thesis.

Sixth, this study contributed towards the disruptive innovation theory. As presented in Chapter 2, during the past two decades, DIT has been applied and tested in numerous industries and different contexts in order to improve its accuracy in analysing and understanding potentially disruptive technologies, business models, services, or products that enter markets. For example, as shown in Chapter 2, DIT has been applied to different sectors of the real estate industry such

as the brokerage sector (e.g., Dewald & Bowen, 2010; Osiyevskyy & Dewald, 2015), and space-as-a-service in commercial real estate (Enstrom & Paulsson, 2020). DIT has also been tested in other industries such as the photography industry (i.e., Kodak) (Lucas & Goh, 2009), tourism and hotel industries (i.e., Airbnb) (Guttentag & Smith, 2017), and newspaper industry (Karimi & Walter, 2015). Further, DIT has been applied to the taxi market examining Uber Technologies, Inc. (Uber) which provides mobility as a service/ride hailing service (e.g., Damle, 2018; Laurell & Sandström, 2016; Urbinati et al., 2018). These and other studies that have applied DIT in different innovations and contexts have served to improve the accuracy and reliability of DIT in analysing new innovations (Christensen et al., 2018; Corsi & Di Minin, 2014; Si & Chen, 2020). By applying DIT to PC in New Zealand, this study contributed towards verifying DIT by using it in a different innovation and a different country context in which the theory has not been used or tested before. Although DIT has been useful for examining the challenges impacting PC in New Zealand, and how the banking industry incumbents may respond, the theory has limitations in analyzing more complex and nuanced relationships between banks and PC platforms. This creates opportunities for future research, as presented in Section 7.7.

Seventh, this study made a methodological contribution; by utilizing a qualitative methodology, the study showed the complexity of introducing a new innovation, from a contextual and behavioural perspective, and developed a holistic framework of PC in New Zealand. This study's methodology facilitated collection of detailed primary data from comprehensive interviews, which helped to provide a deeper understanding of PC in New Zealand. Interviews with experts from diverse stakeholder groups, focused on exploring underlying factors impacting PC, have been the first of its kind in PC research in New Zealand. The qualitative approach employed in this study has not yet been seen in previous studies. As

presented in the literature review chapter, a few prior studies have examined PC in other jurisdictions, such as USA (e.g., Schweizer & Zhou, 2017), UK (Gibilaro & Mattarocci, 2018), Italy (Gigante & Cozzio, 2021), Spain (e.g., Garcia-Teruel, 2019), Finland (Bogdanova, 2018), and Australia (e.g., Lowies et al., 2017). However, none of these prior studies used a qualitative methodology involving diverse stakeholder groups, in order to gather comprehensive primary data, as used in this present study. Researchers can follow this study's approach and investigate other nascent PC markets. For example, within the Asia Pacific region, PC is generally nascent, compared to major PC markets such as USA, UK, and Europe. InvestAsia (2022) reports that, although PC is still relatively new in Asia Pacific, it is increasingly becoming popular, particularly in Singapore, China, and Australia, among others. Drawing from this study, future research can examine contextual factors (e.g., legislation, cultural/behavioural, and population/income) affecting PC in nascent Asia Pacific markets. As PC grows in the region, researchers can also explore how incumbents in the respective markets may respond to PC. Future studies can also test the conceptual framework developed in this study in other countries.

Eighth, this study also delivers a comprehensive literature review from multiple disciplines. The study reviewed and brought together literature from (a) disruptive innovations theory, (b) legitimacy and reputation building of new firms, (c) real estate finance, and (d) property crowdfunding. This is the first study to deliver such a comprehensive literature review in the study of PC. This broad literature review helped to elaborate on the complicated and intricate process of introducing the new innovation of PC, which has been successful elsewhere, into an unfamiliar setting, and trying to get it accepted by the population and compatible with the society's culture and needs. Therefore, this study's literature review made important contribution to the PC field's knowledge base. Subsequent research could use this study's literature review as a foundation for analysis of PC in other nascent PC markets.

Lastly, although focused on New Zealand, this study's findings can benefit other small advanced economies. The challenges and problems faced by PC in New Zealand, as this study has shown, suggest other similar small advanced economies can learn some lessons from this research. For example, other small advanced economies may face the challenge of having small population or market sizes, which can impact PC growth since PC depends on large numbers of people investing in and financing real estate together. Small advanced economies such as Denmark, Finland, Ireland, and Singapore, among others, with populations between four and eight million, may face the challenge of small market sizes. Insights from this study on how to deal with the challenges of a small market size could be used to identify ways of addressing this challenge. For example, PC platforms in small advanced economies in Europe may need to have a pan-European operation, whereby they operate in several European countries to expand the market, as EstateGuru has done. PC platforms in non-European small advanced economies such as Singapore may consider having a wide range of project types on their platforms, to expand their revenues, as stated in Section 6.7. Researchers can follow this study by investigating challenges and contextual factors influencing the growth of PC in other small advanced economies. Such studies may use Finland, Singapore, and Ireland as case studies since they are nascent PC markets, each with at least one or two PC platforms operating. The insights and learnings from this study could be used for better understanding of PC, and how to assist PC platforms to grow in other small advanced economies.

Overall, according to Whetten (1989), research must indicate the 'what', 'why', and 'how' of its theoretical contribution. In terms of the 'what' of theoretical contribution, this study conducted an in-depth investigation of challenges and contextual factors affecting PC in New Zealand, and how the industry may strategically respond to PC. This is a novel study that investigated an emerging and innovative business model of PC, in a unique context of New

Zealand, which currently has no prior research. This study also advanced a conceptual framework on PC in New Zealand, which will stimulate scholarly interest and facilitate future research. In terms of the ‘why’ of theoretical contribution, PC has grown exponentially, particularly in USA, UK, and rest of Europe, but it seems to be struggling to grow in New Zealand. Up till now, no studies have explored PC in New Zealand in great detail, to understand factors that are impeding its growth. Regarding the ‘how’ of theoretical contribution, through using qualitative methods and semi-structured interviews with diverse stakeholders, this study collected rich, detailed data which offered new insights and in-depth understanding of PC in New Zealand, thereby making contribution on this topic which has no prior studies.

7.3.1 DIT and the PC industry in New Zealand

This section analyses how DIT specifically relates to the unique characteristics of the PC industry in New Zealand. It discusses how DIT relates to the unique context of PC in New Zealand, such as the challenges faced by PC platforms, the role of disruptive innovations, and the impact on traditional real estate financing. The discussion is centered around three themes of DIT and how they relate to this study’s findings, namely:

- Although technology-enabled innovations offering more convenience and new or different functionality can disrupt a market; social and market embeddedness, and tradition and habit, can affect the disruptiveness of innovations.
- Although DIT has acknowledged that contextual factors can influence the disruptiveness of an innovation, this study found that New Zealand has a particularly high concentration of numerous unfavourable contextual factors in one single market that are impeding PC.

- A relatively small DIT literature stream has analyzed disruptive susceptibility of markets to new innovations, and this study's findings suggest that the traditional real estate project finance industry in New Zealand is not highly vulnerable to disruption from PC.

- ***Social and market embeddedness, tradition and habit, and PC in New Zealand***

As presented in Chapter 2, two of the key characteristics of disruptive innovations are that they (a) are technology enabled or driven and therefore offer more convenience compared to products and services in the market, and (b) offer a new or different functionality compared to what is currently offered in the market, which makes them appealing to users (Christensen, 1997; Bower & Christensen, 1995; Christensen & Raynor, 2003). DIT argues that these (and other) features enable new innovations to disrupt a market. Recent research has shown that social and market embeddedness of innovations must be considered when analysing new innovations because they can influence their disruptiveness (Reinhardt & Gurtner, 2018). Because “the social system influences usage behavior”, the social environment can affect acceptance of the technology (Reinhardt & Gurtner, 2018, p. 276).

Tradition and habit, which denotes the extent to which users rely on a product or service, “because they or their social environment have relied on this product in the past”, can also influence the acceptance and usage of an innovation (Reinhardt & Gurtner, 2018, p. 276). This present study has shown that introducing a technology enabled innovation that offers convenience and a new functionality does not guarantee that the innovation will be accepted. As presented in Section 5.4.1, interviewees believed that “*mezzanine financing is the traditional route. People use the sources of finance that they know*” (P25). The study has shown that social and market embeddedness of a new innovation, relative to existing products, can

cause PC, an innovation which has disrupted other markets, to struggle or fail in New Zealand. PC platforms enable financing real estate projects online through funding from the public with minimal disclosures, which is supposed to offer convenience, and is different from how real estate is traditionally financed. Despite offering these features, PC is not being accepted by New Zealanders, and PC platforms are not likely to impact traditional real estate project financing. This study's findings suggest that some of the main assumptions of DIT have not been fully supported in the case of PC in New Zealand. Therefore, this study contributes towards DIT's disruptive innovation characteristics by showing that these characteristics may not apply in some contexts, such as PC in New Zealand.

- *New Zealand has a particularly high concentration of several contextual factors in one single market that are impeding PC*

As reviewed in Section 2.1.8, DIT's assumptions were developed based on principles of pure market dynamics (Christensen, 1997; Christensen & Raynor, 2003). The influence of contextual factors were overlooked (Adner, 2002; Chesbrough, 1999a; Mahto et al., 2020). Numerous studies have identified several contextual factors that have influenced the performance of innovations, as reviewed in Section 2.1.3. This study found that PC in New Zealand was impacted by several contextual factors relating to (a) construction industry and developers, (b) cultural/behavioural factors, (c) regulatory framework, and (d) population and income factors.

Compared to previous research in other markets, this study revealed that New Zealand PC has a significantly high concentration of several contextual factors in one single market, that are impeding PC. For instance, by comparison, Urbinati et al. (2018) used DIT to investigate

contextual factors influencing the disruptiveness of Uber in four cities, namely San Francisco, New Delhi, London, and Milan, and found evidence of three factors, namely regulatory framework, market concentration, and availability of substitutive services. The case of PC in New Zealand raises an important question: What is the effect of a high concentration of numerous impeding contextual factors in one single market on the disruptiveness of an innovation? Future research is required to examine whether the number and magnitude of contextual factors potentially affecting a new innovation in a market can impede its disruptiveness. The degree to which many challenging contextual factors exist in one market, and how that can impact innovations, needs to be explored by future DIT scholars.

This study makes a unique contribution to DIT by showing how the quantity, breadth, and depth of contextual factors in one industry can influence the disruptiveness of an innovation. Antonio and Kanbach (2023) called for more studies to examine and substantiate the theoretical value and practical relevance of DIT. The findings of this study on PC in New Zealand can contribute towards improving the key assumptions of DIT, and its applicability in a unique context.

- *The traditional real estate project finance industry in New Zealand is not highly vulnerable to disruption from PC*

This study's findings suggest that the real estate project finance industry in New Zealand is not highly vulnerable to disruptions from PC. The study contributes to DIT's relatively thin line of inquiry focused on disruptive susceptibility of markets (Antonio & Kanbach, 2023; Klenner et al., 2013). Whether a new innovation will have an impact or not depends on the disruptive susceptibility of markets and incumbents, which includes market factors, and actions and reactions of incumbents (Antonio & Kanbach, 2023). Antonio and Kanbach (2023) argued that

“threat enablers make disruption possible” (p.8), and one of the key threat enablers is the existence of neglected, and usually low-segment customers, which creates an opportunity and gap in the market for the innovation to fill. Similarly, Klenner, et al. (2013) posited that “a high degree of disruptive susceptibility would suggest that a low-end market must be present before a disruptive innovation can successfully enter a market” (p. 914). As reviewed in Chapter 2, DIT posits that new innovations usually target consumers in the lower end of the market whose needs have been neglected by the large mainstream players, and/or have minimal demands, and are prepared to use the new service or product in its current (inferior) state (Christensen et al., 2002; Ho, 2022; Sood & Tellis, 2011).

It is arguable whether there is really any neglected lower-end customers in the real estate project finance industry in New Zealand, which PC can serve, and therefore succeed. This study found that there is no real lack of development finance, at least for reputable developers who can easily borrow finance for their projects, and, when developers need non-bank finance, they traditionally go to mezzanine funders. As presented in Section 5.4.1, some interviewees believed that there is no lack of development finance in New Zealand. As one interviewee expressed: *“property crowdfunding as a whole has not really taken off. And I am not really surprised by that because the constraint in the market is not the lack of capital”* (P25). Another interviewee stated: *There’s plenty of mezzanine funders around, developers can go out and get \$10 mil, \$20 mil for their projects, so they don’t need to go to these platforms service providers.”* (P2). There are many options for financing real estate, and it is debatable whether PC is needed in financing real estate projects. Other research participants also questioned the suitability of PC in financing real estate projects, given that (a) developers in New Zealand prefer to finance with a single lender, (b) PC platforms have limited expertise in handling large real estate transactions, (c) the risks involved for the investors (i.e., general public) are too high,

and (d) the \$2 million/year cap limits the feasibility of financing any large projects, especially considering the high property and land prices in New Zealand (Nunns, 2021).

These factors suggest that overall, there is no real market gap for PC to fill in the lower-end of the real estate project financing industry. Drawing from the arguments advanced by Antonio and Kanbach (2023) and Klenner et al. (2013), this study's findings suggest that the New Zealand real estate project finance industry has low "disruptive susceptibility" to PC because there is a lack of an important "threat enabler" that can facilitate the disruption, namely, a neglected segment of the market which PC can serve. It can also be argued that the legislation on the \$2m/year cap has made PC impractical or potentially unfeasible in New Zealand. This study therefore contributes towards DIT's under-researched aspect of disruptive susceptibility of markets. Based on this study of PC in New Zealand, future researchers can examine in greater detail the conditions and factors that have made other markets more susceptible to disruption from PC. Nevertheless, as presented earlier in this thesis, PC can play a role in the real estate project finance industry, and PC platforms need to work on how they can meet specific needs in the market.

7.3.2 Theoretical contributions towards alleviating limitations of DIT

This study contributes towards alleviating some of the inherent limitations and weaknesses of DIT, as follows.

Contextual factors of disruptive innovations: One of the limitations of DIT is that it overlooks contextual factors of disruptive innovations (Antonio & Kanbach, 2023). As presented in section 2.1.8, during the past two decades, DIT has accumulated literature on characteristics of

the context in which a disruptive innovation unfolds. However, Antonio and Kanbach (2023) argued that there is still a need for more in-depth studies examining how contextual factors impact disruption. By examining contextual factors that have influenced PC in New Zealand, and identifying industry, cultural, behavioral, regulatory, and market (population, income) factors that have impacted PC, this study contributes towards improving and advancing DIT. This study discovered that New Zealand has a significantly high concentration of several contextual factors in one single market that are impeding PC. By identifying that a high concentration of adverse contextual factors in a market can impact an innovation, this study makes an important contribution to DIT. Although DIT is now increasingly acknowledging the influence of contextual factors, more scholarly work is required to examine how the prevalence and magnitude of challenging contextual factors can impede disruptiveness of innovations.

The role of embeddedness of disruptive innovations: One of the weaknesses of DIT is that it neglects the role of embeddedness of disruptive innovations, as presented in Section 2.1.8. Scholars have called for more research on the embeddedness of disruptive innovations (Guo et al., 2019; Reinhardt & Gurtner, 2018). By showing that social and market structures in New Zealand have influenced PC, this study contributes towards improving DIT.

DIT lacks predictive ability: Another limitation of DIT is predictive ability (Danneels, 2004; Markides, 2006; Tellis, 2006). Scholars have developed tools and frameworks for improving DIT's predictive power (Cheng et al., 2017; Dotsika & Watkins, 2017; Hang et al., 2011; Keller & Husig, 2009; Momeni & Rost 2016; Rasool et al., 2018). By investigating PC in New Zealand, this study contribute towards improving DIT. This study contributes to the scholarly discussion on DIT's predictive ability by showing that the assumptions of the theory can be

challenged, or may not be guaranteed to hold, due to unique industry, societal, and cultural contextual factors such as those impacting PC in New Zealand. This study showed that, although PC possesses the key characteristics of disruptive innovations (Christensen, 2006; Geurts et al., 2022; Wessel & Christensen, 2012), as per the literature reviewed in Section 2.1.2, this does not necessarily mean that PC will disrupt the industry, due to a wide range of factors revealed in this study. If or when PC platforms start to gain some traction, future researchers may use the indicators and frameworks for analysing disruptiveness of innovations (e.g., Cheng et al., 2017; Dotsika & Watkins, 2017; Momeni & Rost 2016) to examine PC in New Zealand.

Limited generalizability of DIT: As presented in Section 2.1.8, another limitation of DIT is limited generalizability due to paucity of empirical evidence (Danneels, 2004; Tellis, 2006). This criticism has waned over the past decades, as the theory has been applied in numerous innovations, industries and countries (Christensen et al., 2018; Si & Chen, 2020). By applying DIT in a new context of PC in New Zealand, this study contributes towards the generalizability of this theory.

Overall, by applying DIT in a hitherto unexplored context of New Zealand PC, the findings of this study may contribute towards improving the theory in the future. Future opportunities exist to scrutinize the efficacy and explanatory power of DIT, using this study's case of New Zealand PC.

7.4 Implications for practice

This study's findings have important implications for stakeholder groups who have interest in PC in New Zealand, namely PC platforms, developers, banks, policy makers, and general public investors. The study uncovered a wide range of challenges and issues that are impacting PC in New Zealand. Suggestions and recommendations for addressing these challenges are advanced. According to Corley and Gioia (2011), research makes practical contributions by providing fresh new insights for practitioners; or by adding to, or refining the insights offered by prior research. Since there has been no scholarly investigation on PC in New Zealand, this study offers unique practical contributions for key stakeholder groups.

7.4.1 Recommendations for PC platforms

This study offers recommendations and suggestions on how to successfully tackle and solve the key challenges identified in the interviews data. The study makes specific recommendations on key areas, as follows: (i) education and promotion of PC, (ii) due diligence on platforms, (iii) transparency/full information disclosures on platforms, (iv) establishing secondary markets and/or exit strategies, (v) offering diverse investment opportunities for the crowd, and (vi) solving specific problems and meeting particular needs. These are presented as follows.

Education and promotion of PC: Educate New Zealanders about PC and promote the PC platforms

- PC platforms should provide informational and educational materials on their websites to inform and educate the general public about PC; the platform itself, and the services it offers.
- PC platforms should advertise PC in the media to raise market awareness in New Zealand. A collaborative approach amongst PC platforms is recommended as this may be more effective than individual platforms advertising their own platforms. If platforms combine their resources to market PC in New Zealand, this will achieve better results.
- PC platforms must hold seminars for promoting their platforms and educating the public about PC. They must advertise these seminars through several media (newspapers, radio, television, and social media) in order to attract many attendees. Collaborative efforts whereby platforms work together to arrange events, where they all make presentations about their respective platforms, may be more effective.
- PC platforms must educate the general public about PC's legislation in New Zealand, so that people can feel confident that platforms are legitimate businesses that are regulated by the FMA.

Due diligence: Conduct due diligence analysis of projects seeking crowdfunding

- PC platforms must have a list of certain criteria and/or metrics which developers/projects owners must meet before the platforms allow them to post their projects on the platform.
- PC platforms must create a list of key information which developers/projects owners must provide before the platforms allow them to post their projects on the platform.

- PC platforms must then use these lists as standard checklists for accepting projects on the platforms.
- Platforms must ensure that projects seeking funding submit a complete set of information, which the platform must display on the website and provide as downloadable PDF documents, including:
 - A project summary
 - Detailed information memorandum for the project
 - Financials/data sheet
 - Information about the company seeking to crowdfund and its management team
 - Relevant pictures/images of the project
- PC platforms should conduct due diligence evaluation of projects prior to posting them on the platforms, to ensure that the projects' information is valid and truthful. This will minimize risks for investors.
 - PC platforms must have in-house experts on real estate finance transactions, who can analyse and verify the project information and financial data submitted. To minimize costs in the early stages, a part-time expert can be hired to analyse projects for the platform.

Transparency/full information disclosures: Provide detailed information

Information about the platform

- PC platforms must provide detailed information about the management team and key staff for the platforms. This helps potential users of the platform, both developers and investors, to feel confident about using the platform.

- PC platforms should provide information on the performance of the platforms. This may include:
 - The number and/or value of successfully crowdfunded projects
 - The returns investors are getting from crowdfunding investments
 - Success rate of investment campaigns

Information about projects

- As presented earlier under due diligence, PC platforms must provide detailed information about the projects seeking funding.

Secondary market and/or exit strategies: Establish secondary market for the platform

- PC platforms must apply for the FMA’s PC platform secondary market license.
- PC platforms should then set up a page or part of the platform as the “secondary market” section for the platform, and provide secondary market data/information, including:
 - Live trading data
 - PC shares prices
 - Selling record of PC shares
 - Returns of PC investments/shares.

This will give prospective investors confidence that if they invest in projects on the platform, they will be able to exist when they want or need to.

- PC platforms in New Zealand should also consider working together to establish a common secondary or trading marketplace for all PC platforms, where PC investors can trade their PC shares/investments. This would help to create a larger market and better trading activity.

Diversification of investment opportunities: Offer a wide range of crowdfunding investment opportunities

- PC platforms must provide a wide range of crowdfunding opportunities, so that investors can choose the investment opportunities they are interested in, and also diversify their investments.
- PC platforms must offer crowdfunding opportunities in different types of property, namely residential, commercial, and industrial.
- PC platforms must also consider offering crowdfunding opportunities in projects in various locations, for example, in the biggest cities in New Zealand. This will enable investors to invest in locations they want, and geographically diversify their investments.

PC platforms should identify specific problems and meet specific needs of New Zealanders

- For developers, PC platforms should consider how they can refine their platforms and services in order help developers successfully raise the funding they need from the platforms.
- This study's findings showed that some developer projects failed to raise the amount of funding they were seeking on the platforms. Platforms and developers must discuss how to address this problem. Key issues to discuss are:
 - What can platforms do to promote the projects and attract more investors, so that the projects are successfully funded?

- What marketing tactics can platforms use to “mobilize” New Zealanders’ interest, so that they can support and invest in the projects?
- For first home buyers, PC platforms must think about how they can help first home buyers to easily raise part of the deposit they need to get home loans from banks.
- For first investment property buyers, PC platforms should consider how they can help people wanting to raise funds for purchasing their first investment property to do so easily on the platforms.
- Having workshops or discussion groups with developers, first home buyers, or first investment property buyers to discuss what their specific needs are, and how PC platforms can help them, is recommended.

7.4.2 Recommendations for developers

For developers in New Zealand, this study’s findings will help to increase knowledge about PC and thus advance the use of crowdfunding as a real estate financing tool. This is helpful to developers who may be facing difficulties in obtaining bank finance or meeting banks’ lending criteria. This study provides information about PC platforms in New Zealand, so developers can review them and decide the one they would like to use. Specific recommendations and suggestions for developers are presented as follows.

Due diligence: Provide detailed information to facilitate due diligence analysis of projects seeking crowdfunding

- When seeking to raise finance from the crowd, developers should provide detailed information as this will enable prospective investors to conduct their due diligence, so that they can make informed investment decisions.
 - As stated under recommendations for platforms, developers must provide detailed information about their projects, including: project summary, detailed information memorandum for the project, detailed financials/data sheet, information about the developer's company, and the team behind the company/the project. Other supporting information such as images/pictures of the project should also be provided.
- Developers/project owners must ensure that they provide truthful, complete information about the projects, and potential risks of the projects must be stated.
- Developers must work closely with PC platforms' staff and provide them with any (additional) information they may request, as they need to ensure full information is provided, and need to verify the project's information, before posting the project on the platforms.
- Developers must engage with prospective investors on the platform, and, once the project is funded, regular updates about the project must be provided to the investors.

How to deal with the crowd: Designate individuals with responsibility for specific tasks related to 'crowd' investors

- To address the drawbacks associated with raising funds from the crowd and having the crowd as investors in projects, developers should consider the following suggestions for 'managing' the crowd/investors:

- Once a project is posted on the platform, and there are prospective investors who are interested in the project, developers/project owners must be available to answer any questions they may have and provide any additional information requested. Designating one or two people in the developer's company who engage with the potential investors on the platform, and answer their questions, is important. Doing so will also make crowdfunding more efficient.
- When a project has been successfully crowdfunded on a platform, people who have invested have a right to be regularly informed and updated about the project's progress. Developers should consider designating one or two people who are responsible for communicating with the investors.
- Further, rather than having to communicate with the whole 'crowd' of investors, the person with this responsibility in the developer company can initially meet with the investors and ask them to elect their 'representative' through whom they can communicate with the developer. Channelling communications and interactions between the developer and the crowd/investors in this manner is more efficient than dealing with the whole crowd, which may be dozens or hundreds of people, depending on the project.

7.4.3 Recommendations for banks

The study offers insights to senior executives in banks about the alternative response strategies they may use towards PC, if/when PC grows in the future. The study offers suggestions on how banks may collaborate with PC platforms in financing property projects. Specific recommendations for banks are presented as follows.

- Once PC starts growing, banks should contact platforms and discuss ways to collaborate, for mutual benefits to both parties.
- Banks should consider collaborating with PC platforms in mortgage loans to help first home buyers, whereby platforms help would-be borrowers to raise the deposit they need.
 - Working closely with PC platforms, banks should specify upfront their terms and conditions for lending to developers and home buyers who have crowdfunded part of their equity/deposits. This will ensure that if a developer raises (part of) their equity from the platform, or if a prospective home buyers raises (part of) their deposit from the platforms, they will successfully get development loans or home mortgage from the bank.
- Banks should continuously improve their products/services to better compete against new innovations such as PC, and other FinTech and PropTech innovations that may enter the market in the future.

7.4.4 Recommendations for the general public investors

Specific recommendations and suggestions for general public investors are as follows.

- Potential investors in New Zealand can read and learn about PC; there is a lot of information about PC on the Internet. As PC platforms in New Zealand grow, they will have more informative and educational content on their platforms. People interested in PC can visit the platforms' websites and read and learn about PC; the specific platforms, and the investment opportunities they offer.

- Investors can ask PC platforms they are interested in any questions they may have, and any additional information they may need.
- Investors should consider supporting developers' projects; they can search for development projects that appeal to them; study the information provided, and invest in these projects.
- Once PC platforms grow, they may be used by first home buyers to raise (part of) their deposit. Prospective investors can support such first-home buyer crowdfunding projects, and help other New Zealanders achieve their goals of home ownership.
- To diversify crowdfunding investments, investors can invest in different property types and/or in different locations/cities/suburbs. Investors can diversify their crowdfunding investments by investing in construction projects, completed properties, and in first-home buyer projects.

7.5 Implications for policy makers

This study found that the regulatory framework for PC in New Zealand is hampering PC's growth. Therefore, recommendations for how to improve the PC legislation are advanced.

7.5.1 Recommendations for the FMA

Specific recommendations and suggestions for the FMA are presented as follows.

PC legislation for PC license

- The FMA should consider reviewing and amending the legislative framework for PC in NZ, in consultation with all stakeholders who have worked within this framework and are best positioned to inform the FMA on what works and what does not work, to help PC grow in New Zealand. It is important to ensure that this process is impartial, and not influenced by stakeholders who may want to interrupt the introduction and growth of PC in New Zealand. For instance, a representative of a financial institution may be consulted and they can potentially advocate for legislative changes that support the status quo, supposedly for the security of the lending sector. In doing so, they may implicitly or explicitly attack PC or hinder its potential growth.
- The FMA should consider increasing the \$2m/year cap because it is too constrictive; increasing the fundraising cap will allow crowdfunding larger amounts. The ideal cap value can be discussed with PC platforms and developers.
- The FMA must consider simplifying the PC license application process, as current PC license holders gave feedback that they found the process arduous.
- The FMA should consider making compliance requirements for platforms less demanding, and this can be discussed and determined in consultation with PC platform managers.

PC legislation for PC secondary market license

- The FMA must consider reviewing and simplifying the process of obtaining the FMA PC secondary market license, in consultation with PC platform founders and managers. By making the application process easier and faster, PC platforms can address one of the key challenges they currently face, namely lack of secondary markets and/or exist strategies.
- The FMA should consider giving successful applicants a PC license and a secondary market license at the same time, rather than having the platform founders first go through a long

process of applying for a license, and then go through another process of applying for a secondary market license. The feedback from PC founders and managers was that it would simplify the application process if they were to apply for both the PC license and the secondary market license at the same time. This makes sense because without a secondary license, PC platforms struggle to attract investors.

7.6 Social implications

As PC platforms enable people to contribute small amounts of money to purchase or invest in, and co-own property, further work on platforms in New Zealand has potential for social impact. The literature has acknowledged the problem of housing affordability in New Zealand (e.g., McLeay, 2022). The literature has also documented that PC has been used to address housing affordability and home ownership problems in Australia (Sharam & Bryant, 2017) and Malaysia (Chin et al., 2021), among others. Equity crowdfunding platforms offer a venue for impact oriented investors, or people who want to make social impact investments (Yılmaz & Yasar, 2021). Crowdfunding can help to not only raise funding, but also shift the crowd towards impact investing to generate positive social outcomes for communities (Feola et al., 2017). Lehner and Nicholls (2017) examined the application of impact investing in crowdfunding using a public–private case study which involved government bodies, impact crowd investors, and social banks; and found that the government’s involvement through offering a government guarantee provided legitimacy and leverage to the project. There are opportunities for PC platforms to facilitate impact investing and achieve social good by helping to address housing affordability in New Zealand. Since PC platforms can play an important role in addressing the housing affordability problem in New Zealand, this provides a strong reason why the FMA

should support the platforms' growth. Future scholars may conduct in-depth research on how PC platforms can be used for social impact investing to address housing problems in New Zealand, and make the necessary recommendations. Overall, although PC platforms may have risks of money laundering, fraud, and terrorism financing (Hidajat, 2020; Teichmann, 2022), they can be used for social good through impact investing.

7.7 Study limitations and future research opportunities

This study, like other scholarly works, has certain limitations and constraints. These include (a) reliance on qualitative methods, (b) potential subjectivity in data interpretation, (c) limitations of the sample size, (d) potential biases and limitations relating to the sample selection process and some over-representation and under-representation of certain stakeholder groups, (e) potential biases of the participants, and (f) generalizability limitations. These limitations present opportunities for future research. I discuss these limitations and future research avenues below. Areas that have not been explored in this study, which present future research opportunities are also presented.

- ***Reliance on qualitative methods, opportunities for future quantitative studies***

The first main inherent constraint of this study is its reliance on qualitative methods. Qualitative approach was chosen as the best approach due to nascent state of PC. Edmondson and McManus (2007) state that researchers must use research methods that are congruent with the state of prior work in the field, and qualitative methods are suitable for nascent research topics. Research in nascent fields typically aim to gather detailed insights about a relatively

new and under-researched issue (Edmondson and McManus (2007)). Qualitative methods are ideal for gathering rich, detailed, and in-depth information about a nascent area of investigation, to develop knowledge and understanding of it (Edmondson and McManus, 2007). PC in the New Zealand context has been overlooked and under-investigated, and this necessitated qualitative methods.

From positivist or post-positivist ontological and epistemological assumptions that argue that knowledge should be created using quantitative research methods as posited by Bryman and Bell (2011), this study's findings, which were based on qualitative methods, can be criticized as lacking. However, PC is a nascent field and PC platforms are still new, thereby creating challenges of obtaining time-series data. As a result, qualitative methods have been considered more practical and suitable, as they facilitated gathering rich detailed qualitative data to help understand PC. The current lack of time-series data therefore presents an opportunity for future research to conduct quantitative-based research after the platforms have become more active, with more transactions completed, which will provide time-series data.

If/when platforms are being increasingly used as finance and investment tools, and more data become available, future quantitative studies can investigate how PC compares to other investment tools in the New Zealand market in terms of returns on investment. Such research can follow prior studies such as Schweizer and Zhou (2017) who analysed returns of 733 PC campaigns/projects posted on seven largest PC platforms in USA, and several studies that examined crowdfunding as a financial instrument, and analysed financial returns in crowdfunding, as reviewed by Martinez-Climent et al. (2018).

- ***Researcher subjectivity and how it was minimized***

The second inherent constraint of this study relates to potential researcher subjectivity in data interpretation. Lincoln and Guba (2000) posit that there is always a degree of human subjectivity in data interpretation; data can be interpreted in different ways, and the interpretations can be influenced by the researcher's abilities and experience. To minimize subjectivity in data interpretation, and support trustworthiness of research findings and interpretations, researchers must support their findings with verbatim quotes from interviews with participants (Lincoln and Guba, 2000). Detailed verbatim quotations from the interviews were provided in Chapter 5 of this thesis. Presenting verbatim quotations enables the reader to judge and confirm the findings, as the quotes can demonstrate how the interpretations are grounded in the research participants' opinions. A researcher must also transparently explain the data analysis procedure and approach they used (Lincoln and Guba, 2000). This has been presented in Sections 4.7 and 4.9 of this thesis.

- ***Limitations of the sample size***

The third inherent constraint of this study lies in limitations of the sample size. As explained in Section 4.5.4.2, this study interviewed 31 highly informed experts from diverse stakeholder groups. The size of the sample was determined by theoretical saturation (Creswell & Creswell, 2017), which is a stage whereby no new or relevant data was being gathered from additional interviews and the information was becoming repetitive. Although a larger sample would have given the opportunity to collect more data, I needed to consider the time limitations of the PhD program. More interviews would have required a longer timeframe to conduct the interviews.

Guest et al. (2006) argued that, in qualitative research, saturation can be achieved within the first 12 interviews. Future research may broaden and expand the sample of interviewees.

- ***Potential biases and limitations relating to the sample selection process, over-representation and under-representation of certain stakeholder groups***

The fourth constraint of this study lies in potential biases and limitations relating to the sample selection process, and some over-representation and under-representation of certain stakeholder groups. There are three potential biases and limitations to the study's selection process. First, it was biased towards experienced property developers and investors who were contactable (i.e., those with websites), and therefore would seem to have an under-representation of very small or 'mom and dad' type of property developers and investors. Future studies with more financial resources and time may identify these very small property developers and investors and interview them.

Second, due to the research topic and interview questions, the study focused on experts who are knowledgeable about PC and real estate projects finance. The general public, such as potential home or property investment buyers were excluded. During field research, I attended several seminars and took notes, as explained in Section 4.5.3. Although this stakeholder group of home buyers was not represented in interviews, during the seminars, I chatted with numerous individuals and made notes which informed me in this research. I also observed during these seminars that the general public's knowledge about PC was still limited as they were still learning about it in the seminars, and their interest was in how PC can help them purchase a property. Future research can focus on how PC can be used to address housing affordability in New Zealand, and enable people to purchase property. These studies can interview the general public, including prospective home buyers.

Third, the stakeholder group of government agency was under-represented. Although one interviewee's company did some extensive work with a government agency, it would have been helpful to get direct insights from relevant New Zealand government agencies such as the Ministry of Housing and Urban Development. Future studies can focus on government agencies and explore how public-private partnerships and PC can help to address housing issues in New Zealand.

Although it may appear, from the insights collected, that property financiers were overrepresented, this is because the topic is situated in the property finance sector, and is focused on how PC can be used as a financing tool in the sector. Overall, the under-representation of certain stakeholder groups present opportunities for future research. Future studies focusing on the role of PC in housing in New Zealand may involve stakeholder groups that have been under-represented in this present study.

- ***Potential biases of the participants***

The fifth constraint is potential biases of the participants. Interpretive research involves analysing a phenomenon through the perspectives of the different types of individuals involved in the phenomenon (Creswell, 2007). PC founders were more optimistic about PC than banking executives. For instance, although some PC founders were already meeting with banks and seeking collaborating opportunities with banks, bank executives did not believe that PC platforms' offering and service were up to standard, or ready and finalized to serve the New Zealand market.

- ***Social desirability bias***

Social desirability bias occurs when research participants give responses that they consider to be socially desirable, and this can impact the accuracy of the data (Krosnick, 1999). In this study, in order to gather truthful responses, rather than agreeable or disagreeable responses, participants were promised anonymity, which enabled them to speak freely. According to Adams et al. (2014), bias can be minimized by interviewing participants at a convenient location and time, allowing fair consideration of the questions. Accordingly, all interviews were conducted at locations and times that were convenient for the interviewees. When conducting interviews, researchers should avoid leading questions (Bryman & Bell, 2011; Creswell & Creswell, 2017). In this study, interviews were conducted using open-ended questions, and no leading questions were used, in order to reduce participant bias. To minimize the effects of participant bias when developing the redesigned conceptual framework (Figure 45), all the different viewpoints of participants from different stakeholder groups were considered and synthesized into the framework.

- ***Generalizability limitations of the study's findings***

Another inherent constraint of this study is generalizability limitations. The study findings, which was focused on New Zealand, may have limits on their generalizability and applicability to other contexts because the findings are influenced by the location and context of the study. This limitation suggests that future researchers may investigate PC in other jurisdictions and contexts.

PC is currently an emerging field with limited published research. Future research that further explore this under-developed topic is recommended. This study invites future research on PC

in New Zealand to further examine and test the validity, and provide a more nuanced analysis, of the conceptual framework of PC advanced in this study.

- ***Drawbacks of secondary data***

In this study, to supplement primary data collected through interviews, a vast amount of secondary data was used. Although secondary analysis of documents offered access to a lot of data about PC, using secondary data, especially sourced on the Internet has its drawbacks. Quality control is important when working with documents, especially when using the Internet to source the documents, as suggested by Gaborone (2006). In this study, Scott's (1990) four criteria for evaluating documents, namely authenticity, credibility, representation, and meaning, were used to ensure that only high quality and reliable data were used. To facilitate collection of more primary data, future studies may extend the research to include interviews with other stakeholder groups to get additional insights from more diverse stakeholders.

- ***PC is still evolving***

This study was conducted in the early stages of PC's introduction in New Zealand, and the sector is still evolving. Future research is therefore necessary if/when the sector grows in the future. For instance, as PC grows in the future, further research will be required to examine in more detail how banks can collaborate with platforms. This study provides a foundation for such future studies. Since disruption is a process, not an event (Christensen, 2006), future scholars may use DIT as a research method in longitudinal research; and examine the evolution of the innovation over time. New innovations typically lead to improvements in accessibility, availability, and affordability of services or products in the markets they enter (Christensen,

1997; Christensen & Bower, 1996). Future studies may investigate whether PC has made any changes or improvements in accessibility of finance in New Zealand.

- ***Risks of hidden investments were not explored in this study***

This study did not explore risks associated with hidden investments, such as money laundering and terrorism financing. Prior studies focused on other countries found that platforms can be used for money laundering, financing of terrorism, and fraud (Hidajat, 2020; Teichmann et al., 2022). Once New Zealand PC platforms become active with more completed transactions, researchers can investigate risks of hidden investments on platforms, particularly money laundering, terrorism financing, and fraud. Until NZ PC gains traction, studies on risks may be primarily conceptual and speculative. As presented in Section 2.4.4, the New Zealand Government announced in 2023 that following a review of the AML/CFT Act, new changes and regulations have been made to the Act, and will progressively come into force between 2023 and 2025 (New Zealand Ministry of Justice, 2023). Future studies can analyze the effectiveness of the revised AML/CFT Act in avoiding or minimizing money laundering risks on PC platforms.

- ***Complex and nuanced relationships between banks, PC platforms, and the general public were not examined in this study***

This research did not scrutinize the complex and nuanced relationships between incumbents in the real estate project finance industry, such as banks; PC platforms, and the general public (i.e., banks' clients). Even if banks decide to not engage with PC platforms, some of their clients may. This means banks will need to take into consideration the structure of equity, and assess whether crowd funds are an advantage, for example, evidence of community acceptance,

or a disadvantage, for instance, more stakeholders to manage and risks of negative opinions from some of the stakeholders. Analyzing the more complex and nuanced relationships between banks and PC platforms, and implications of the relationships, is arguably beyond the explanatory power of DIT. While beyond the core focus of this research, and the explanatory capabilities of DIT, it would be worthwhile and interesting for future studies to explore this complex and nuanced relationship using New Zealand PC as a case study. How can banks balance their relationships and interests with their clients, PC platforms, any institutional co-financiers? Such future studies can use stakeholder theory, theory of customer relations, and/or reputation theory, among others.

- ***More in-depth analysis of factors that impacted PC using other theories is required, to shed more light on these factors***

This study has revealed a wide range of factors that affected PC in New Zealand. During the next few years, more PropTech (Starr et al., 2020; Tan & Miller, 2023) and FinTech innovations (Elia et al., 2023; Sun & Wang, 2023) are expected to be introduced, supported by advancements in information technology. Based on the challenges PC has faced, there is a need to gain an in-depth understanding of factors that can impact new PropTech innovations in New Zealand. Future studies can take a deeper look into factors that impacted PC using other theories which can shed more light on these factors, for example, institutional theory, behavioral and cultural theories, consumer behavior theory, marketing theories, and social norm theory.

In conclusion, this study advanced a conceptual framework for understanding PC in New Zealand which offers a foundation for future research. This framework provided an in-depth knowledge and understanding on the challenges and contextual factors affecting property crowdfunding in New Zealand, the response strategies of the real estate project finance industry, and suggestions and recommendations on how PC platforms can address the challenges they are currently facing. Although PC in New Zealand is currently facing challenges that are hampering its growth, there is potential for growth, if the challenges are addressed, as recommended in this study.

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8 Appendices

Appendix A - Interview guide



Interview Guide for PhD Research:

Conceptualizing the challenges and contextual factors affecting property crowdfunding in New Zealand, and the response strategies of the real estate project finance industry

Research Aim #1: To examine the current state of property crowdfunding in New Zealand and its potential benefits, growth & opportunities, challenges and risks.

SECTION A: PROPERTY CROWDFUNDING IN NEW ZEALAND – CURRENT STATE, POTENTIAL BENEFITS, GROWTH & OPPORTUNITIES, CHALLENGES AND RISKS

Definition and Current State

1. How would you define property crowdfunding?
2. How would you describe the current state of property crowdfunding in New Zealand?

Potential benefits, growth and opportunities

3. What role can crowdfunding play in the financing of property development projects in NZ?
4. How can PC platforms help to improve the availability and accessibility of property development finance in NZ?
5. What is required for the New Zealand public to consider PC a mainstream financing/investment tool?
6. What can be done to make property crowdfunding mainstream in New Zealand?
7. How can property crowdfunding platforms in New Zealand gain the trust of the New Zealand public?
8. How can banks in NZ work with PC platforms? What would be the benefits of this collaboration?
9. How can PC platforms provide the general public with investment opportunities?

Property Crowdfunding Platforms in NZ: Challenges

10. What factors are influencing the growth (or lack thereof) of PC in New Zealand?
11. Why do you think PC platforms are failing to close property crowdfunded deals on their platforms?
12. What challenges do you think PC platforms are facing in growing / expanding their platforms?
13. Why are developers not using platforms to raise equity / capital for their projects?
14. Why are Kiwis not interested in crowdfunding developers' projects?
15. In overseas markets such as USA & UK, property crowdfunding (for both residential & commercial) has taken off significantly. Why do you think PC has had a slower uptake in New Zealand?
16. What challenges would PC face in New Zealand?
17. Why is property crowdfunding so difficult in New Zealand?
18. What do you think is the most effective way to do residential property development finance crowdfunding successfully in New Zealand?
19. What do you think is the most effective way to do commercial property development crowdfunding successfully in New Zealand?

Risks

20. What are the risks or dangers of using property crowdfunding in the New Zealand environment?
21. Where will property crowdfunding grow the fastest in New Zealand? Which sectors of real estate – completed residential, completed commercial, or real estate development?

SECTION B: HOW FINANCIAL INSTITUTIONS CAN STRATEGICALLY RESPOND TO PROPERTY CROWDFUNDING

Research Aim #2: To examine how financial institutions that traditionally finance property or property development projects (e.g., banks) can strategically respond to property crowdfunding.

Banks' Motivation to Respond to Property Crowdfunding

1. Does property crowdfunding has the potential to grow rapidly in New Zealand, and why?
2. Does property crowdfunding present a potential threat to banks, and how / why?
3. In your view, how motivated should banks be to strategically respond to property crowdfunding?

Banks' Ability to Respond to Property Crowdfunding

4. How would you describe the differences or similarities in business model; value proposition, and skills & competences between banks and property crowdfunding platforms?
5. In your view, do banks have the resources to strategically respond to property crowdfunding? **Or**, Are banks able to allocate resources towards responding to property crowdfunding?
6. How would you describe banks' ability to strategically respond to property crowdfunding?

Responding to property crowdfunding

- 7 (a). How can banks strategically respond to property crowdfunding?
- 7 (b). Tell me about what banks need to do or change, to be able to respond to property crowdfunding.

Alternative response strategies of banks to property crowdfunding

IGNORE PROPERTY CROWDFUNING

Banks in New Zealand are currently ignoring property crowdfunding platforms. They are not taking any steps to strategically respond to the rise of property crowdfunding platforms.

8. Why do think banks are choosing to ignore property crowdfunding platforms?
9. From banks' perspective, what are the advantages of ignoring property crowdfunding platforms?
10. From banks' perspective, what are the disadvantages of ignoring property crowdfunding platforms?

ADOPT PROPERTY CROWDFUNDING AND INTEGRATE IT WITH OWN BUSINESS

11. What do you think is the rationale of this response strategy (i.e., banks adopting crowdfunding and integrating it with own business)?
12. What are the advantages of this response strategy?
13. What are the disadvantages of this response strategy?
14. Tell me your thoughts about best ways to integrate property crowdfunding with banks' existing products and services in NZ.

STRENGTHEN OWN BUSINESS MODEL, PRODUCTS AND SERVICES

15. What do you think is the rationale of this response strategy, in the face of PC entering the market?
16. What are the advantages of this response strategy?
17. What are the disadvantages of this response strategy?

EMBRACE PROPERTY CROWDFUNDING AND SCALE IT UP

18. What do you think is the rationale of this response strategy?
19. What are the advantages of this response strategy?
20. What are the disadvantages of this response strategy?

DIRECTLY COMPETE WITH PROPERTY CROWDFUNDING PLATFORMS

21. What do you think is the rationale of this response strategy?
 22. What are the advantages of this response strategy?
 23. What are the disadvantages of this response strategy?
-

Future outlook of PC in New Zealand

24. If we were to meet five or ten years from now, where do you think PC in New Zealand will be?
-

Appendix B – Invitation letter, participant information sheet, and consent form



Massey University
School of Economics & Finance
Private Bag 102904
North Shore
Auckland 0745
New Zealand

16 October 2019

Dear Sir/Madam

Re: Request to conduct doctoral research

My name is Nicolle Montgomery. I am a doctoral student in Massey University's School of Economics and Finance. My doctoral research aims to examine challenges and contextual factors affecting property crowdfunding (PC) in New Zealand, and the response strategies of the real estate project finance industry. This research will contribute towards understanding PC in New Zealand, and alternative strategies the real estate project finance industry can use in response to PC, a potentially disruptive entrant to the industry.

The purpose of this letter is to request a time to interview you. I have attached an information sheet on the research project for your review, and a consent form.

If you wish to participate in this study, please read and sign the attached consent form, and email it back to me.

I will be in contact within a week to arrange an interview time.

If you have any questions about the research, please do not hesitate to contact me.

Your participation in this research would be greatly appreciated.

Thank you for your time and I look forward to hearing from you.

Sincerely,
Nicolle Montgomery



Date

Name and address of research participant

Massey University
School of Economics & Finance
Private Bag 102904
North Shore
Auckland 0745
New Zealand

PARTICIPANT INFORMATION SHEET

Project title: Conceptualizing the challenges and contextual factors affecting property crowdfunding in New Zealand, and the response strategies of the real estate project finance industry

Geographical scope of the research: New Zealand, USA, UK, Europe, Australia.

Research Premise for New Zealand Case Study: In New Zealand, PC platforms are struggling to gain acceptance or popularity. The underlying causes for this are unknown. Although PC is nascent in New Zealand, it may grow in the future. It is unclear how incumbents in the real estate project finance industry may strategically respond if/when PC grown in the future.

Name of Researcher: Nicolle Montgomery

Researcher introduction

All interviews will be conducted by Nicolle Montgomery, a doctoral student in the School of Economics and Finance, Massey University, New Zealand.

Research project description and invitation

The purpose of this study is to examine the challenges and contextual factors affecting property crowdfunding in New Zealand, and the response strategies of the real estate project finance industry.

This research project will engage with and interview different stakeholders involved in real estate finance. This includes traditional financial institutions who finance/invest in real estate projects (e.g., banks, real estate private equity firms, venture capital firms, property syndication companies, listed and unlisted property funds and companies, sovereign wealth funds, super/pension funds, and insurance companies, among others). The project will also engage with and interview founders and CEOs of PC platforms as well as some general equity crowdfunding platforms. The geographical scope of the research project is New Zealand, Australia, USA, and UK. The study will interview participants from the above-listed countries.

I would like to invite you to participate in this research project. Your participation in this research is voluntary. Before making your decision, please take the time to read the following information, and feel free to ask me any questions you may have.

Research procedure

I would like to collect data for this research project through interviews. The interview can be done in person or via Skype. The interviews will take approximately 45 mins - 1 hour. No preparation on your part is necessary for these interviews: questions will relate to your knowledge, experience and perspectives on real estate, real estate finance and investing, and real estate crowdfunding. The interviews may only be audio-recorded with your consent. You are free to request that the recording stop at any time.

Alternatively, notes will be taken during the interview. All audio-recorded interviews will be transcribed and analysed by myself.

Anonymity and confidentiality

The identity of participants in this research project will be kept strictly confidential. The study's findings will be published in a PhD thesis. All the information gathered from this research will be aggregated, anonymized and analysed – and will not be linked to the names of participants or their organizations. The findings will be presented in a manner that ensures that participants and their contributions to the study cannot be personally identified. No personal information about you or your organization will be disclosed to third parties. Special care will be taken to guarantee anonymity and confidentiality of your identity. All identifying information from the collected data will be removed. There are no anticipated risks to you for participating in this research project.

Data use, storage, retention, and destruction

Information collected will only be used for this research. The information will be used for the researcher's PhD thesis. The collected information will be stored securely in a locked cabinet. Only myself will have access to this information. The information will be kept for two years after the completion of the research, after which it will be destroyed. Audio recordings and transcription files will also be deleted.

Voluntary participation and right to withdraw

Your participation in this research project is voluntary. You are free to withdraw from participating in the research at any time.

Consent form

Please see attached a consent form. The purpose of this form is to gain your consent to participate in this study. If you wish to participate in this study, please read and sign the attached consent form, and email it back to me.

If you have any questions or would like more information about this study, please do not hesitate to contact me.

Thank you for your time in considering participating in this research study. Your participation in this study would be greatly appreciated.

Thank you very much in advance for your time and assistance in making this research project possible.

I look forward to hearing from you.

Sincerely,
Nicolle Montgomery

Massey University, School of Economics & Finance

Email: n.montgomery@massey.ac.nz

Skype ID: n.montgomery@massey.ac.nz

This doctoral research project is supervised by:

Primary Supervisor: Professor Xiaoming Li
Massey University, School of Economics & Finance
Email: X.N.Li@massey.ac.nz

Secondary Supervisor: Professor Christoph Schumacher
Massey University, School of Economics & Finance
Email: C.Schumacher@massey.ac.nz



Date

Name and address of research participant

Massey University
School of Economics & Finance
Private Bag 102904
North Shore
Auckland 0745
New Zealand

CONSENT FORM

Research topic: Conceptualizing the challenges and contextual factors affecting property crowdfunding in New Zealand, and the response strategies of the real estate project finance industry.

Name of researcher: Nicolle Montgomery

Consent to participate: This form serves to gain your consent to participate in this research project. This form will be stored securely to ensure confidentiality.

I have read and understood the Participant Information Sheet. I understand the nature of the research. I agree to the following:

- I agree to participate in this research project.
- I agree to be interviewed for approximately 45 mins – 1 hour, in person or via Skype.
- I understand that my identity, and my participation in this research will be kept strictly confidential.
- I understand that neither myself, or my organization, will be identified in this study.
- I understand that findings from this research will be aggregated and published in a PhD thesis and possibly an academic journal, in a way that ensures anonymity.
- I understand that I can choose to be / not to be audio recorded during the interview.
- I understand that information that will be provided during this research will only be used for the purposes of this research.
- I understand that information collected will be kept safely in a locked cabinet at Massey University, and will be held for two years following the completion of the research project, after which it will be destroyed.
- I understand I can withdraw from participating at any time.

Name:

Signature:

Date:

This research project has been approved by the Massey University Human Participants Ethics Committee. Ethics Reference Number: 4000020644

Appendix C – Massey University Human Ethics Low Risk Notification



Date: 05 March 2019

Dear Nicolle Montgomery

Re: Ethics Notification - **4000020644** - **Conceptualizing the response strategies of the real estate project finance industry to real estate crowdfunding.**

Thank you for your notification which you have assessed as Low Risk.

Your project has been recorded in our system which is reported in the Annual Report of the Massey University Human Ethics Committee.

The low risk notification for this project is valid for a maximum of three years.

If situations subsequently occur which cause you to reconsider your ethical analysis, please contact a Research Ethics Administrator.

Please note that travel undertaken by students must be approved by the supervisor and the relevant Pro Vice-Chancellor and be in accordance with the Policy and Procedures for Course-Related Student Travel Overseas. In addition, the supervisor must advise the University's Insurance Officer.

A reminder to include the following statement on all public documents:

"This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University's Human Ethics Committees. The researcher(s) named in this document are responsible for the ethical conduct of this research.

If you have any concerns about the conduct of this research that you want to raise with someone other than the researcher(s), please contact Professor Craig Johnson, Director - Ethics, telephone 06 3569099 ext 85271, email humanethics@massey.ac.nz."

Please note, if a sponsoring organisation, funding authority or a journal in which you wish to publish requires evidence of committee approval (with an approval number), you will have to complete the application form again, answering "yes" to the publication question to provide more information for one of the University's Human Ethics Committees. You should also note that such an approval can only be provided prior to the commencement of the research.

Yours sincerely

Research Ethics Office, Research and Enterprise
Massey University, Private Bag 11 222, Palmerston North, 4442, New Zealand **T** 06 350 5573; 06 350 5575 **F** 06 355 7973
E humanethics@massey.ac.nz **W** <http://humanethics.massey.ac.nz>

Human Ethics Low Risk notification



Professor Craig Johnson
Chair, Human Ethics Chairs' Committee and Director (Research Ethics)