Our first interviewee is Gustas Germanavičius, EvoEstate CEO. EvoEstate is a Real Estate Crowdfunding aggregator that sources and aggregates real estate investment opportunities from 18 platforms in 15 different countries, including Germany, Italy or France. In this interview we discuss about Real Estate Crowdfunding, EvoEstate and Crowdlending in general.

Note: At the moment of writing this interview I'm not an investor in EvoEstate, but I consider it an innovative platform that is doing interesting stuff such as allowing investors to achieve better diversification when investing in Real Estate and that has a promising future.

Intro

Who is Gustas Germanavičius and what is EvoEstate about?

So I am Gustas and I am the co-founder of EvoEstate. Before EvoEstate I co-founded an artificial intelligence company called WellParko/Bikecount.eu which was backed by Venture Capital investors and was acquired by Parksol in April 2019. Apart from that, I hold an Investment Adviser's license, by Baltic Financial Advisors Association - BFAA.

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Regarding our team, we are two founders, I and Audrius Višniauskas, who is also CIO (Chief Investment Officer) and has been an entrepreneur with multiple exits. He's also been investing in other areas as well, including, but not limited crowdfunding and start-ups. He has a private venture capital firm and has invested in start-ups such as Revolut or Enevo (Audrius's portfolio).

We've known Alexander, our CTO, for about 10 years as he has worked with Audrius previously on other companies. We also have 4 other developers working with him. Adrian, our community manager, joined us at the beginning of the year and Ana manages media relationships and works on the content side.

Besides our core team, we also have our advisors. They bring experience either in asset management or in real estate. For example, risk scoring was done in cooperation with Chris Kanwei, who manages the £3Billion real estate investment portfolio in the insurance company Aviva, and he helped us improve all those processes. We also have some other advisors which are real estate developers.

Our team is making a difference in this industry as we're solving the problem of multi-diversification. Before we existed it was complex, requiring to sign-up, monitor and get reports from multiple platforms, which is really time-consuming. Other problems our platform solves are that it allows investing a minimum of €50 regardless of the platform, it includes auto-invest and secondary market for all platforms regardless of if they already have it, and that we take a common approach to evaluate the risk for all platforms, which usually have different risk scoring processes and provide investors with different information.

We thought that we should use our knowledge to help investors understand opportunities. Thus, we created our own risk-scoring model which analyses factual data so that there's no subjective opinion or interpretation. The answers are yes/no or based on data (number of transactions, margins, etc.).

And we're backed by 2 Venture Capital investors: Business Angels Fund, a Lithuanian fund that helps entrepreneurs build successful, viable and stable businesses, and Startup Wise Guys, the largest early-stage Venture Capital fund in Europe that has also invested in other crowdfunding companies such as Estateguru and Investly.

Do you invest in EvoEstate projects? If so, what percentage of your capital do you invest in EvoEstate?

My exposure in EvoEstate is around 40% of my net worth. From a personal perspective, it'd be considered as too much based on the contemporary principles of diversification. In every skin in the game deal, I invest like 0.5% of my net-worth (not including Real Estate). Because I believe in what we're doing, I don't consider this is a bad decision to have deep skin-in-the-game.

What else do you invest in? What's your current asset allocation?

I invest in Real Estate Crowdfunding, stocks, loans for private companies, and I have a small allocation in bitcoin and start-ups. I've sold recently most of my portfolio of stocks and my bitcoins so currently I continue to invest in Real Estate Crowdfunding and private investments.

Even though I sold most of my portfolio in stocks and bitcoin, I still hold some individual stocks and an Ibex35 index fund. Regarding loans, I invest in both crowdfunded loans and in secured direct loans for companies.

For example, one of the investments in private companies would be the Lahhentagge distillery. In this particular area, my investment philosophy is leaning towards investing more in lifestyle, things that I like or exceptional products in general, rather than making purely ROI-driven investments. However, up to this date, these so-called lifestyle investments are outperforming other ROI-driven investment decisions.

Real Estate Crowdfunding

Why should investors consider investing in Real Estate?

I think there's no answer to why one should or why shouldn't. As an asset class Real Estate, stocks, bonds, etc. attract different investor profiles, which have different investment goals. Besides diversification, there is definitely a significant part of emotional decision when it comes to investing in Real Estate. As an investment type, investors should understand that there's a large difference in decision making when buying a long term rental investment instead than a semi-secondary house with an intention to also rent the property through Airbnb. In the end every person has to find his own investment portfolio balance, where Real Estate will make up a larger or smaller part of the exposure.

Why should they consider investing in Real Estate Crowdfunding instead of/additional to REITS?

If we compare crowdfunding vs other options such as direct investments, crowdfunding is easier to access because it requires less capital, which at the same time allows better risk management.

REITs are similar in this sense to crowdfunding, but the key difference is that they have price risk, as the price is directly correlated with stock market prices and not always to the underlying asset prices. REITs are also harder to access, you need to open a broker account and know how to search and operate it and they have higher transaction costs. It might not make much financial sense to put €50 or €100 a month into a REIT fund if you would be paying a €10 commission on the trade. Additionally, investing in REITs is subject to different tax regulations, therefore one should consider how they're taxed, as you can end up paying additional taxes.

Considering different elements, such as transaction fees, minimum ticket sizes and taxation, every asset class and type of Real Estate investment has its own client. Together with our team, we have prepared 2 reports, which we believe can increase your knowledge about Real Estate investing and comparing it against other investment types:

- Real Estate Investment Types of 2020 Report: Overlooks European Real Estate crowdfunding market and provides a comprehensive comparison between RE crowdfunding and other RE related financial instruments
- European Real Estate Market Overview Report: In this report, you will find information about how the real estate market has changed in the last years in 6 European countries. You will also find how COVID-19 has impacted different European real estate markets.

What percentage of their asset allocation should investors dedicate to Real Estate?

Every person has its own investment portfolio with a different asset allocation. There's no silver lining. The answer depends on the age of the investor, knowledge and experience, appetite for risk, net worth, etc. I know people who have over 90% of their net worth invested in Real Estate, but they've been investing in Real Estate for 30 years and won't get similar returns anywhere else.

I think Europe is really different when it comes to Real Estate, meaning that everyone wants to own a house or a rental property. That's why the emotional side is really important. For some people, buying might be a terrible investment, but it provides peace and allows them to have the desired lifestyle. It's more of a lifestyle investment.

What's the minimum capital an investor should dedicate to Real Estate Crowdfunding to achieve a proper diversification considering that these investments don't have buyback guarantee?

In order to diversify correctly in Real Estate Crowdfunding, the best start is to place €5 000 because with that amount you can invest in 100 deals with auto-invest. With 100 investments you're well covered against the project risks. You'll still be exposed to systemic risks though, but you can't avoid those.

You can also start with less and build your portfolio over time. But it's important to diversify and not invest everything into the same type of project as you'll be exposed to the same risks. For example, if you consider investing in rental properties sometimes you won't get the rental income, but the asset won't disappear.

Which types of Real Estate Crowdfunding projects are your favourites?

I invest across the 3 types: Buy-to-let, Loans and Equity deals. But if I had to name my favourite, that would be buy-to-let because it's really simple, it's low risk and the returns if you take into account capital gains should be comparable to the fixed-interest loans if you consider long periods of time and factor in defaults. There's also this emotional aspect to buy-to-let, as it's like owning a real asset and knowing where your investment actually is. Every time I pass through a property that I've invested through crowdfunding it actually feels quite nice as you understand that you've contributed to it.

I also like equity deals as they're also in a lot of cases are relatively easy to understand and the returns can reach up to 20%. We have interesting business models on our platform when it comes to equity investments such as auction projects where the property is being bought below the market price or the development projects that can also include leverage.

The fixed-interest loans are the most common, the returns are predictable and in most cases the loans are secured with mortgages. This type is also attractive to someone who wants a stable return.

What returns can investors expect from each type of project?

If we extrapolate 5-years returns, buy-to-let should offer 8% returns after the property has been sold, the loans should yield between 9 to 11%, that is mainly because some loans will default, it will take time to recover them, not all the interest can be collected and potentially there might be a principal loss. People have to be realistic with defaults, they'll happen at some point.

And equity deals should be around 11-13%. But due to the high risk involved the defined return should be considered only taking into account all of the equity investments listed.

How long should it take to recover / sell a defaulted project? Looks like some platforms keep the collateral for a long time so that they can still say that no project has ended with a loss

Platforms claim to not have capital losses, but the reality is that some of the projects are in the middle of the recovery process, which has been stuck. This is proved by the fact that those properties are being auctioned at lower prices, so it's just a marketing strategy they're using to mislead in a wider sense. Investments go in both directions, up and down and the reality should be reflected.

The recovery process and time depends a lot on the country, in the Baltics we have a good repossessing framework which was established relatively not long ago. The laws are positive from the creditor perspective, the same as in the UK and Germany. The recovery process in Spain or France can take multiple years and you might not even recover the asset.

In the Baltics, it takes up to 1 year to recover the asset, but that also depends significantly on the borrower. Regarding the asset itself, it depends on the quality of it. If it's a good asset you can sell it in 1 week after you have repossessed it, but if it's a half-built house in a currently being developed district in which construction has stopped it might be difficult to sell it.

In our risk-scoring early-stages of development properties always get higher risks because they're higher risk as they're more difficult to sell. Especially in uncertain times.

What's your view on current Real Estate market dynamics? I noticed that you stopped investing for a few months but you've already started investing again, are you investing into all countries and types of project or are you focusing on specific markets / types of project?

We didn't invest for 2-3 months because of obvious reasons: it was really uncertain about the outcome on the development restrictions and the quality of the deals and the return rates hadn't changed. You can read more in this article. In June we've started to invest again and since then we've invested in 15 or 20 projects. We're being honest, we only claim skin-in-the-game only if we actually invest in the projects.

The trend we're seeing now across all loan originators is that the quality of Real Estate deals has increased. The returns, on the other hand, haven't increased much and are not expected to increase in the future as the European Investment Bank is supplying low-interest credit lines for non-banking lenders and platforms can't compete at those rates. The outcome is yet to be seen.

What's your view about Housers' situation? (They're having bad press because of a huge spike in defaults / late projects and they're even buying 5 stars reviews both in Google and Trustpilot to make things look better than they really are)

Many platforms buy fake reviews or offer something in return for the investors' reviews, so I couldn't say it's something new.

Regarding Housers, we're seeing the outcome of what happened 2-3 years ago. My view is that when they changed the CEO and most of the management team they had some difficulties, but if we look into the deals today, we can see that quality is improving along with their risk assessment. We know that the risk scoring wasn't good in the past, but they've been making improvements. Just recently, they have introduced investment opportunities secured with mortgages. They're also regulated by the CNMV, so they are required to have capital reserves to be used in order to process transactions in case they default.

Regarding EvoEstate, we offer the opportunity to invest in 18 different platforms, so Housers is a really small part of our portfolio. And even in the worst-case scenario, not every Housers project will default, meaning that if you have a well-diversified portfolio there's a low statistical risk that your single investment will make a significant capital loss on your whole portfolio. We are a marketplace that provides an opportunity to access the deals, but the investment decision whether to invest or not in a certain originator's deals is taken by the investors.

About EvoEstate

How did EvoEstate start, what's the story behind the platform?

The story is pretty simple, we've been investing in Real Estate Crowdfunding for 6 years and we realized it was really hard to diversify. So we decided to build this platform to make things easier.

The first investors were us and our friends, family and acquaintances. Once we tested it for a while we opened it to the public. We've been fast in the development of the platform. For example, we launched the secondary market just one month after we went live.

Which countries and types of projects does the platform provide access to? Are you planning to add new countries or types of projects in the future?

We already have the main types of projects and we're in the key European markets. We're definitely interested in adding more loan originators and in including new markets, but I think that the only key markets we're not covering right now are the ones that have other than Euro currencies. We need first to integrate with segregated accounts and with currency exchange providers and take it from there. Then we might open the UK, Sweden or Denmark.

Our focus currently is on integrating segregated accounts and on building some features into our interface. We're focusing on product and customer experience.

Could you provide some statistics of the platform?

We're working on this as well. At the beginning, we didn't want to publish them as we thought that others were trying to build similar platforms, but we don't have anything to hide. We have over 3 000 registered investors, 1 300 of which are active investors. They've already invested over €2.7M (as of mid-October 2020) and we expect to hit €3M next month as investors are currently investing over €350k monthly.

We've helped fund over 250 projects, you can find the details on project originators page.

Do you also have institutional investors using the platform or are you planning to approach them at some point?

We don't have institutional investors using the platform as I think it makes more sense for them to go directly to project originators. That way they can get more data to evaluate projects and they can negotiate better interest rates, which we don't have the capacity to make. Our focus is on building consumer-focused products.

I think it's the same for Mintos, I don't expect them to have many institutional investors. It has already happened a couple of times that once an originator is approved into the platform they attract the attention of institutional investors, which then contact the loan originator in order to invest directly with better terms for both of them.

How many projects have already finished, are late or in default? What's your expected default rate?

We're rebuilding this page to make it clearer. We have two projects, but with the current display they're combined with late interest payments and principal repayment, which isn't that clear, I admit it. We don't have defaults at this moment, but we know that at some point our originators will have defaults on the projects that are listed on EvoEstate. You can find portfolio statistics on the project originators page and repaid project statistics on the repaid projects page.

We expect to have a default rate similar to European standards. Our view is that smaller originators should have lower default rates as they have a smaller portfolio and are more focused on each project. In general, we expect around a 3-5% default rate in loans. Technically neither buy-to-let nor equity projects can default, so the overall default rate should be lower.

Do you provide access to every project the platforms you collaborate with fund or do you only select the ones that fit your criteria?

We're a marketplace and we trust originators' judgment. The only exceptions are situations in which projects are funded too fast and there's no time for them to appear on our platform. Some platforms are able to fund more than €100 000 in less than one minute, so we wait for a couple of minutes before making them available for our investors.

Do you evaluate projects and developers prior to making them available in the platform? If yes, what does your due diligence process include?

The risk scoring model is pretty simple as we believe it has to be structured, transparent and most importantly unbiased. That's why it's based on factual data both for project originators and for projects. We're building a page to include the details so that it's easier to access and understand.

For project originators, the assessment methodology is divided into three main classes: operating environment, risk appetite and financial profile. You can find the details on the 20 Q1 update.

For projects, we evaluate different factors such as property type, LTV, loan structure, pre-sales, developer experience, licenses, macro and micro location, stage of development, investment length and project EBITDA margin. You can find the details on the 20 Q2 update.

How are investments structured? Do investors invest directly into projects or does EvoEstate invest on behalf of the investors while keeping register of the invested amounts? Are you using segregated accounts?

Yes, we collect investor funds and invest on behalf of them while keeping a register of the invested amounts. We're currently working on implementing a segregated accounts provider and we expect to launch them in the first quarter of 2021.

What would happen if EvoEstate goes out of business? Do you have a continuity plan? If yes, for how long will the funds last in case a contractual entity has to take over the role of EvoEstate?

Because we don't originate the deals we only have to facilitate the transfers between investors and project originators. So once we segregate the accounts this risk is fully taken away.

For the current structure, we have separated €10 000, which should cover even very expensive transfers to investors. But we're not going anywhere, we're building this for the long term.

How does EvoEstate earn money? Is EvoEstate profitable? Are you considering auditing your results and providing access to investors to your financial statement?

EvoEstate makes money by charging a commission on an invested amount to the deal originators, the terms for investors remain the same as investing directly. EvoEstate is and has been operating in line with operational expenses and income. Because we are focusing on growth, we are spending more capital from the funds raised from Venture Capital investors, thus it wouldn't be factually correct to classify us as profitable. Yes, the financial statement for 2020 will be available to our investors.

Do you expect European regulation to have any impact in the platform?

We wanted to get regulated several months ago but the problem is that the regulation is simply not there yet. A marketplace should be licensed as an Investment Brokerage firm, which provides financial products. But loans are not considered financial products, so this approach at the time of this interview is simply not viable for us. Our decision here is to wait for European-wide Crowdfunding regulations implemented in the member states.

<u>Other crowdfunding topics</u>

We're seeing that some investors are exiting crowdlending platforms because of scams and defaults without knowing what they did wrong in the first place, how can we all work to raise risk awareness and recover investor confidence?

Generally, I think that P2P as in terms of a product of debt aggregation (buyback guarantee) is a high-risk product. I personally don't invest there, and a lot of people don't understand the risks involved.

Regarding the scams, investors have to do Due Diligence before investing. They have to check who are the people behind the company, if the platform is operated by real people or if they are backed by venture capital, etc. For example, if they are backed by external investors that should provide trust as they always do due diligence on a monthly or quarterly basis.

And yes, it's definitely a shame what these companies have done but at the same time, I look at it as an opportunity. Investors are beginning to understand that maybe Real Estate Crowdfunding has lower returns, but they are more realistic returns and that these companies are built to last.

What's your opinion of bloggers and the role they've had in promoting scams? Should affiliate / marketing commissions be regulated?

It really depends. When it comes to us, our cash-back promotion is really low. I think it's one of the lowest in the industry and there's a key reason for that, we believe that good products don't require heavy commissions on referrals. The best marketing channel is the word of mouth from satisfied users.

It's great to have some coverage from the affiliates though, as they can look into the business and share the story of the company from a very different perspective which is a very important point both for investors and the company itself.

But I think it all gets messed up when affiliates are earning very high commissions because then conflicts of interest arise. The UK's Financial Conduct Authority (FCA) for example has limited how much the platforms can pay to the affiliates so that commissions are not that significant. This way you won't see affiliates buying Google Ads and positioning themselves over the platforms in search results in order to maximize commissions.

At this time our users invite more friends than affiliates do, meaning that our main channel for customer acquisition is our existing clients, not the affiliates.

Here the interview reaches its end, I hope it was of interest. I wanted to thank Gustas and EvoEstate team for having the time to discuss openly such a long list of questions about Real Estate Crowdfunding and they're up to and for providing supporting materials, reviewing the script and clarifying information where required.

In case you want to start investing in the platform, you can use this link[1] to get an additional 0.5% bonus (over your invested amount) for 6 months after the first investment is done

If you want to know more about EvoEstate you can listen to these interviews, which have helped me prepare this one:

- https://laurentiumihai.ro/banii-vorbesc-gustas-germanavicius/
  (web is in Romanian, but the podcast is in English)
- https://emerging-europe.com/multimedia/emerging-europe-talks-real-estate-crowdfunding-with-gustas-germanavicius/

[1] Promotional link issued to invertirmisahorros.es, I also earn a commission if you use the link