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**STUDY ON THE REAL ESTATE
CROWDFUNDING MARKET
IN FRANCE**

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Summary

Crowdfunding is a financing model that allows a large number of people to fund a project, a business or a philanthropic initiative. Since the entry into force of European Regulation 2020/1503 on crowdfunding service providers, and the end, in November 2023, of most of the pre-existing national regimes, including the French Crowdfunding Investment Advisor (CIA) regime, crowdfunding is now governed by a harmonised regulatory framework at the European level.

The financing of real estate projects via online platforms is the preferred type of crowdfunding among French investors, as opposed to many other types of financing, such as the financing of businesses, renewable energy projects or non-profit projects.

Among the sales pitches put forward by some platforms are high rates of return on investment, sometimes accompanied by claims of limited risk of capital loss. Initially, the crowdfunding model was to use junior debt (in most cases without collateral) to finance real estate transactions, with a high risk premium. The absence of collateral was often linked to the fact that the platforms were supporting operators alongside banks, which enjoyed first-rank collateral while the platforms took second-rank.

The purpose of this study is to provide an overview of the real estate crowdfunding market in France, and to present its findings on the risks and returns specific to this market.

Total inflows and breakdown of activities financed

Projects are mainly financed by bonds and loans, which remunerate investors through interest, paid either during their lifetime or at maturity. The capital is generally repaid at maturity. The number of projects financed increased significantly from the introduction of this type of investment in France (from the publication of the order of 30 May 2014¹ on crowdfunding) to 2022. However, in 2023, on account of the real estate crisis, rising interest rates and high inflation, project owners experienced difficulties in finalising their existing projects and offering new ones. In this difficult environment, investors also became more cautious, as they had fewer sources of financing and were faced with delays to existing projects.

Investments in real estate crowdfunding are mainly aimed at financing the projects of real estate traders, which entail buying, renovating and then reselling existing properties. Real estate development projects, which have been less frequent since 2021, include all the stages of a real estate project, from land acquisition to the sale of the property, including planning, construction and obtaining the necessary legal permits. In recent years, the difference between these two types of operation has widened in favour of real estate traders, mainly on account of the major crisis in the real estate development sector.

Contractual returns and risk remuneration

Against a more difficult real estate backdrop, average contractual returns, which were between 9.1% and 9.6% over the period 2017-2022, rose to 9.9% in 2023 and again to 10.7% in 2024. Despite this increase in contractual returns, the average risk premium² for real estate crowdfunding has contracted from 10% in 2020, its historic high, to 7.7% in 2023 and 8% in 2024.

¹ <https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000029008408> (only available in French).

² The risk premium is the difference between the expected return on a risky investment (such as a share or corporate bond) and the return on an asset theoretically considered to be risk-free or low-risk (generally government bonds).

The payment terms make it difficult to assess the progress of recent projects

Statistics from the study sample show a late payment rate of around 30% on projects in progress. These delays range from a few months to longer delays, some of which have led to ongoing collective insolvency and legal proceedings. The vast majority of interest on financed projects is paid out at contractual maturity of the projects. Consequently, it is difficult to determine the extent of current delays and final losses insofar as the projects have not been completed, and there are ongoing collective insolvency and legal proceedings.

The large inflows seen in recent years, together with the length of time it takes to note the first late payments, generally two years (corresponding to the average maturity of the projects financed), renders it difficult to accurately estimate the risks on projects in progress.

In order to better assess the trend on this market, the projects financed in 2020 and 2021, a large proportion of which have already matured, can provide clearer indications. Projects initiated in 2020 and 2021 experienced delay rates of 20.1% and 36.9% respectively of the nominal value of the projects financed two years after they were financed (at the end of 2022 and 2023 respectively).

Methodology used by platforms for the statistics they publish

France FinTech expects its members to publish statistical indicators that go beyond only those strictly required by European legislation, in the interests of transparency for potential investors.

However, these delay statistics published by the platforms are based solely on projects in progress and do not take into account delays to projects that have already been repaid. This means that a project that was finally repaid, but with a significant delay, would not be counted under the category of delayed projects, but rather under the 'reimbursed in full' category. This method of categorising delays does not make it possible to assess the actual delay rate for launched projects.

Including projects that were repaid with a delay, the proportion of projects with delays in absolute terms (and not at a given point in time) rises from 15.2% to 60.2% of the nominal values of projects financed in 2019, a year for which the majority (92.8%) of projects had been closed by March 2024. Of these 60.2%, 42% experienced delays exceeding six months, and 8.8% have ongoing collective insolvency or legal proceedings.

In addition, platforms routinely use aggregated statistics for all their projects in their communications. For example, returns of between 10% and 12% can be presented alongside virtually zero default rates. However, beyond the general provisions introduced by AMF Position 2023-05, there are no specific regulatory requirements governing the presentation of default rates, which are equated by some market participants with the final loss after collective insolvency proceedings. The same observation can be made as regards the presentation of returns, which is not standardised, particularly as to how potential delays and losses are taken into account in return estimates. In addition, combining these two metrics leads to presenting a very advantageous risk/return ratio, which can be misleading given the time lag between the observation date of the two metrics: the prospective rate of return estimated at the project launch date on the one hand, and, on the other, a 'default rate' which cannot take account of difficult situations, given the time needed to identify project delays and losses.

Returns and risks: conclusion

Actual returns on projects vary between platforms and can differ significantly from the contractual returns advertised to clients. Delays are very frequent, create liquidity risks and can be a sign of the deteriorating financial situation of projects. Collective insolvency and legal proceedings affect a significant proportion of projects, ranging from 8% to 9.4% for those financed between 2019 and 2021 and, depending on the recovery rate, they can result in significant capital losses for the investors concerned.

The AMF stresses that the sales pitch and marketing materials used, including the Key Investor Information Sheet (KIIS), must take account of the specific characteristics of the financing of the real estate project in question. This includes the terms of repayment, the risks associated with the underlying market and the risks specific to the project.

Introduction and scope

This study contains estimates of the main statistics relating to the real estate crowdfunding market in France. It focuses on financing through bonds and loans. Equity investments, which account for only a small proportion of real estate crowdfunding investment, have been excluded.

The study presents analyses of changes in the amounts of the projects financed, as well as some of their characteristics: breakdown of activities financed, contractual maturity, and difficulties observed in repaying the nominal or paying interest.

However, the statistics presented may have certain limitations. Most of the data was collected directly from the platforms and then aggregated. Platforms sometimes use different methodologies for calculating one and the same metric, and have a variable level of data quality.

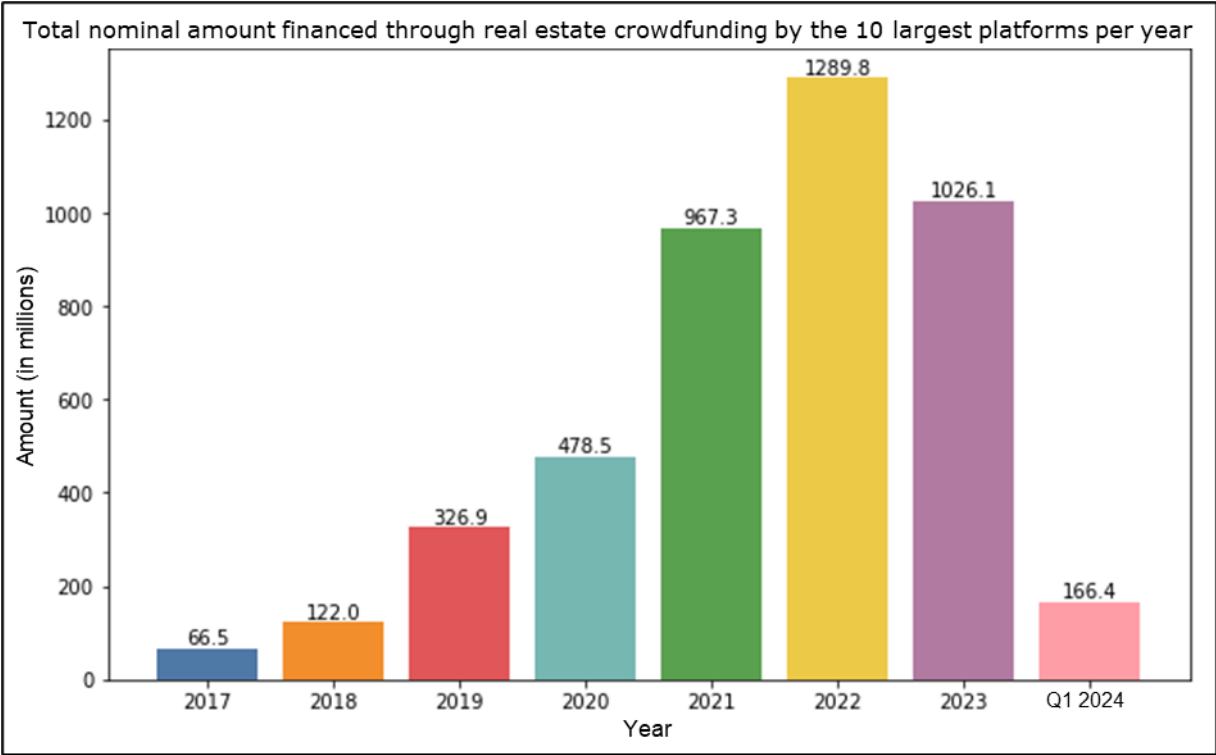
The real estate crowdfunding market in France

Changes in inflows

The data for this study was collected from the 10 largest real estate crowdfunding platforms, representing 75% of inflows between 2021 and 2023. The amounts invested have risen significantly in recent years, from €66.5 million in 2017 to €1.289 billion in 2022 and €1.026 billion in 2023, for a total of €4.4 billion in inflows since 2017.

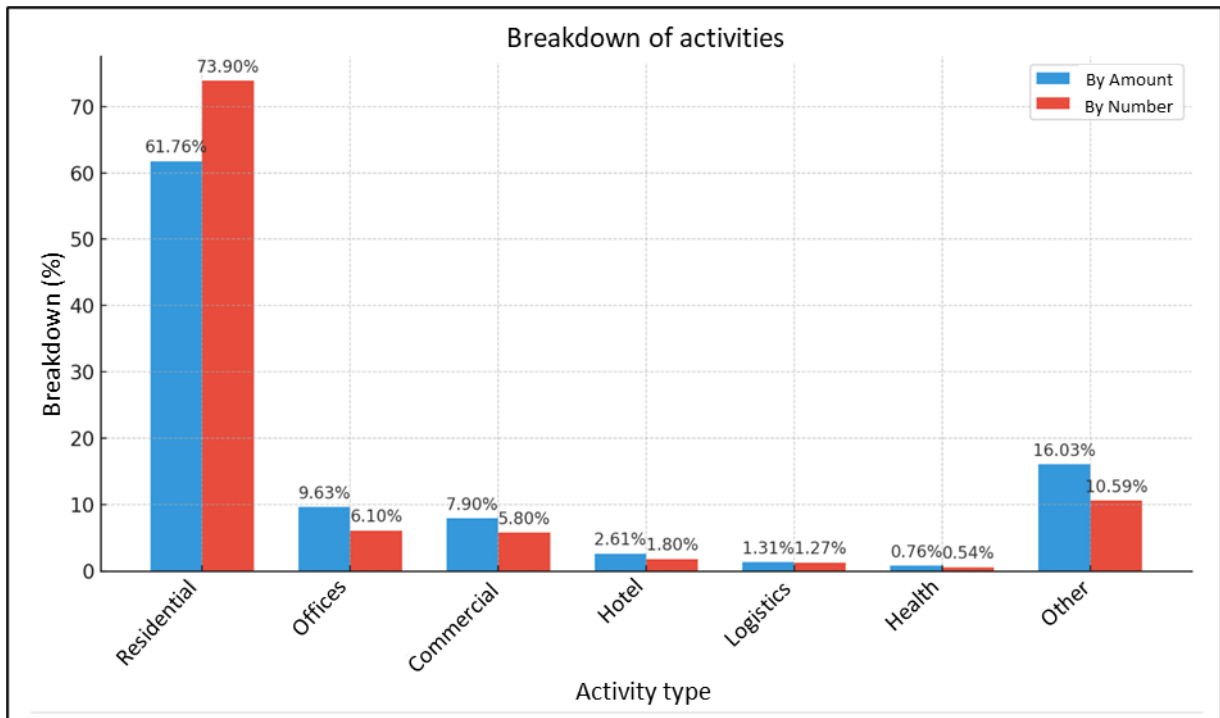
Investor interest in crowdfunding has been driven by the possibility of investing very small amounts in assets advertising high contractual returns and by the feeling of supporting the real, tangible economy. In addition, the buoyancy of the real estate market, driven by a low interest rate environment, has also reinforced the trend.

In 2023, however, growth in inflows slowed down for the first time since 2017. The nominal amount financed by the 10 largest platforms fell by 20% compared with the previous year. Economic conditions were less favourable, particularly in connection with the war in Ukraine and the rise in inflation. Costs for project owners have risen, making it difficult to continue existing projects and to offer new ones, and rising interest rates have reduced buyers' borrowing capacity.



Breakdown of the activities of projects in progress

The term 'project in progress' is used here to denote a project that has been initiated, but not yet completed, and therefore for which the investor has yet to be repaid. The project is therefore still being executed, and the planned stages, such as construction, renovation, administrative procedures and marketing, have yet to be completed. This means that even through the contractual maturity date for project financing has expired, the project can still be considered to be 'in progress' if there is a delay in relation to this maturity date. The following statistics cover all the projects 'in progress' of the platforms in the sample, whether or not they have experienced delays.



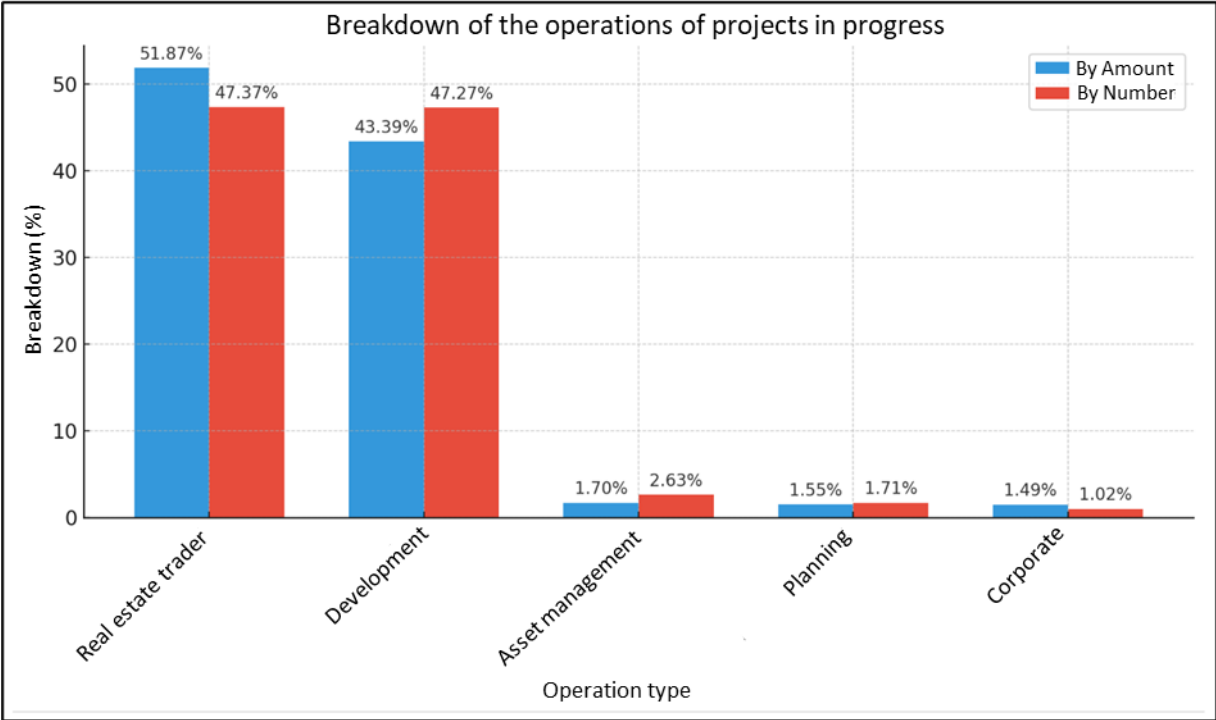
As at 31 March 2024, real estate projects in progress were primarily residential in nature, representing 62% of the €2.46 billion in nominal financing or 74% of the 2,041 projects in number. Office projects accounted for around 9.6% of the total amount financed and 6.1% of the number of projects. Financing for commercial projects accounted for 7.9% of the amount invested. The 'Other' category, which includes mixed projects combining residential, office and commercial uses, represented 16% of the nominal value of projects in progress.

Thus, these three sectors comprise almost all of the real estate crowdfunding investment sectors, while the other sectors, such as hotels, logistics and healthcare, account for a residual share of the total amounts invested in projects in progress.

Breakdown of the operations of projects in progress

Real estate development consists of managing all the stages of a real estate project, from land acquisition to the sale of the property, including planning, construction and obtaining the necessary legal permits. As a result, real estate development projects, which involve more stages and are more complex, take longer to complete than real estate trading projects.

Real estate trading operations, which primarily involve buying, renovating and then reselling property, accounted for a major part of the projects in progress at the end of March 2024 (52% of the nominal value financed for projects in progress).

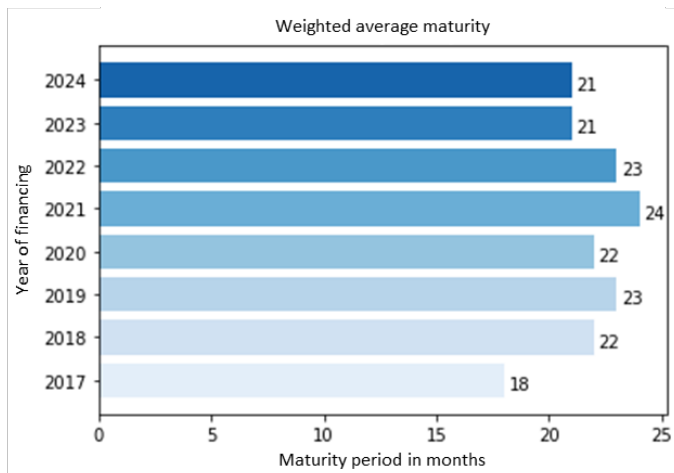


Furthermore, the share of real estate trading operations has risen sharply in recent years, reaching 57% of total financing in 2022, compared with 39% for real estate development.

In 2023, this trend continued, with real estate traders accounting for 60% of the total amount financed, while real estate development projects accounted for 33.5%.

This increase in the proportion of real estate trading transactions is explained by the difficulties encountered in pure real estate development, in particular the rise in construction costs and longer time-to-market, which have led market participants to prioritise the projects of real estate traders.

Breakdown of project maturity

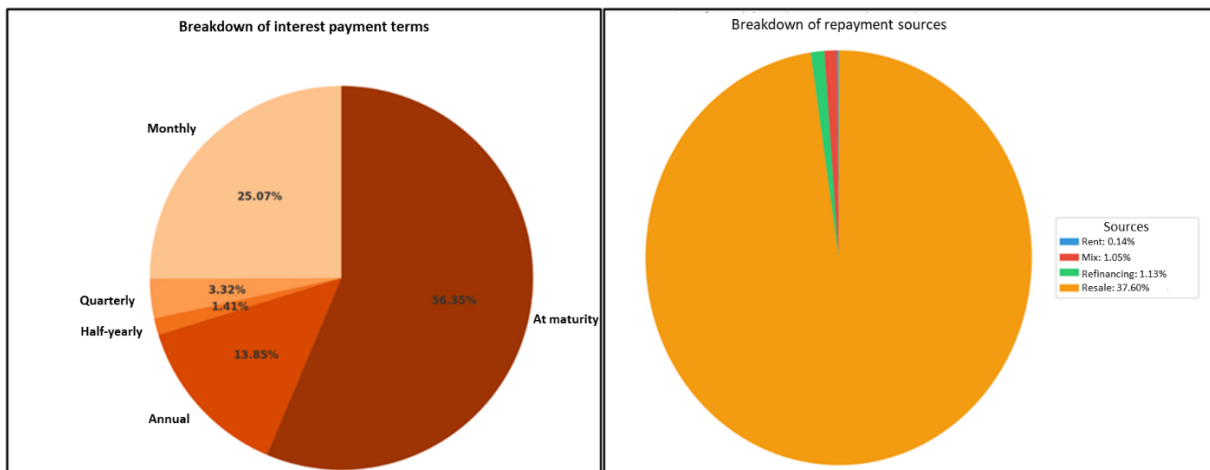


The average time to maturity of projects has remained stable at around two years since 2017³, although there has been a slight decrease in recent years due to the increase in real estate trader projects, which are generally quicker to complete than real estate development projects.

In addition, despite the overall trend towards offering shorter projects, some platforms fund longer projects, with average maturities in excess of four years.

Terms of payment and reimbursement

Real estate crowdfunding projects are generally structured such that the interest is paid and the capital repaid at the end, i.e. at maturity. Therefore, 56% of investors in projects in progress should contractually receive their first return on investment at the end of the projects, i.e. on average within two years of the start of the projects. Nearly 14% of investors have to wait at least a year after their initial investment to receive their first payment. This form of payment corresponds to the nature of real estate projects, where the cash required for repayment and payment of interest is generated at the end of the project, often after the sale or delivery of the property. 97.7% of projects have resale as their a source of repayment, as illustrated by the chart on the right below.



For projects with payment at maturity, the investor has to wait until the end of the project to receive their returns. This limits the liquidity of the investment over the life of the project, even in the absence of incidents.

³ Not all platforms have the same methodology for calculating the maturity of projects in progress, particularly as regards the inclusion of extensions.

Furthermore, without interim payments, it is more difficult to identify any difficulties with the project being financed. On the other hand, projects with more frequent payments, such as monthly or quarterly payments, allow for a better assessment of how well the project is progressing.

As a result, investors do not become aware of difficulties with projects until the time of repayment and interest payments, i.e. only after a period of one to three years, and sometimes even later. This time lag is explained by the nature of the real estate projects financed: construction delays, difficulties in marketing properties or administrative complications can lead to significant delays in finalising projects and therefore in payments to investors.

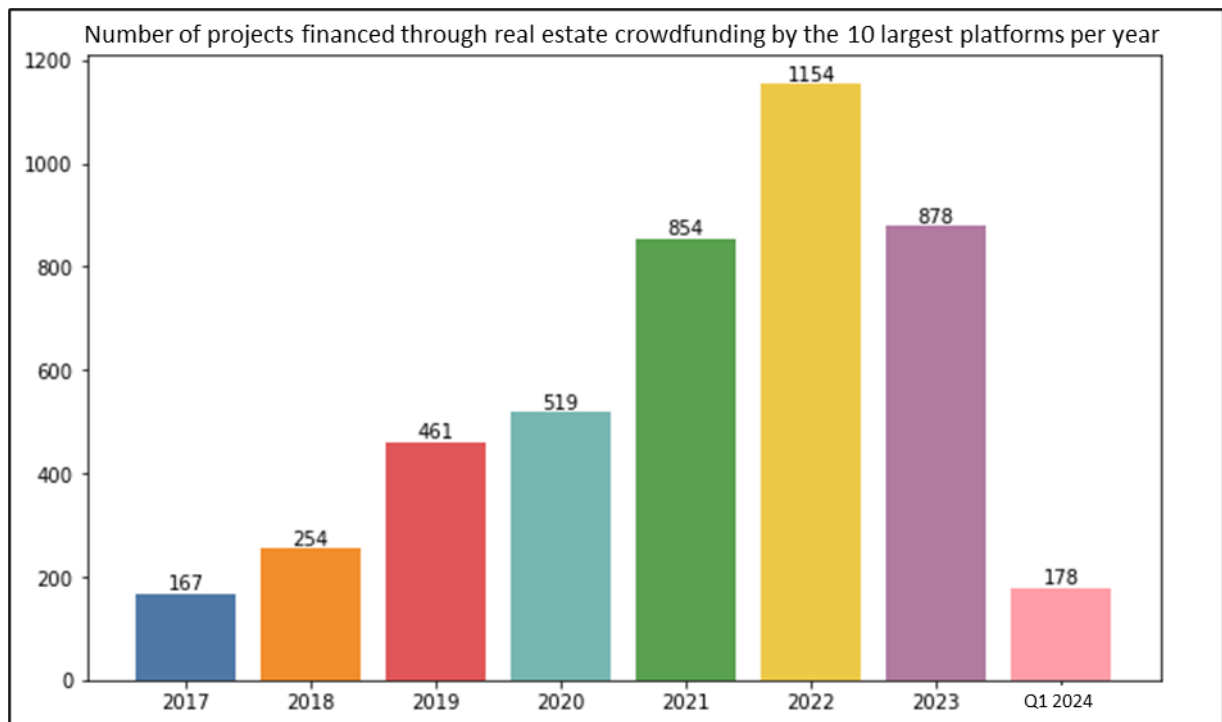
It is also important to note that the proportion of projects in progress with monthly repayments (25% in nominal terms) is explained by the structures of a single platform. For several platforms, all financing is structured around at maturity interest payments. Mechanically, when the real market experiences difficulties, the statistics on returns and risks deteriorate more quickly for platforms offering short-term projects with more frequent periodic payments.

In addition, during difficult economic periods or for certain projects in difficulty, promoters may be forced to change the payment terms. Payments initially scheduled on a periodic basis (monthly, quarterly or half-yearly) may be switched to at maturity payments to enable the project owner to overcome cash or cash flow management difficulties.

Market overview

Number of projects financed

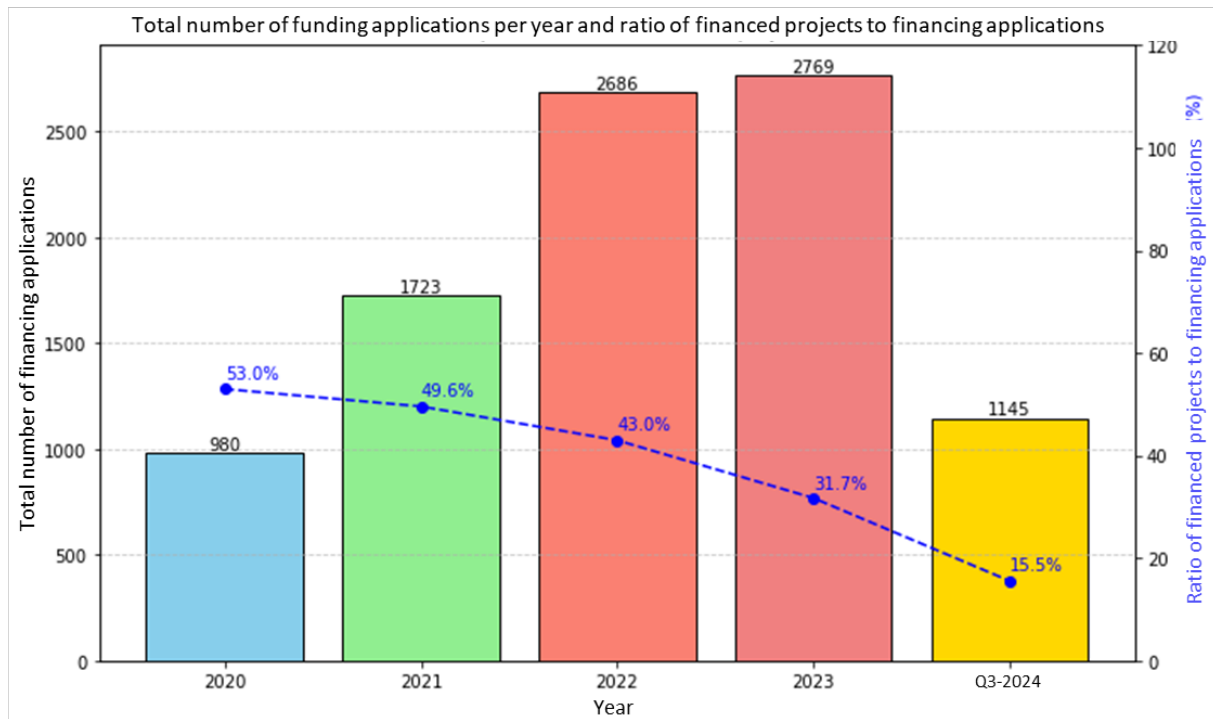
The number of projects financed follows the same trend as the nominal inflows by year. As a result, the number of projects financed initially rose significantly, from 167 projects in 2017 to 1,154 projects in 2022. In 2023, the number of projects financed by the 10 largest platforms fell to 878, thus returning to a level close to that of 2021. Between January and March 2024, 178 projects were financed.



Number of financing applications made to platforms

The number of applications for project financing submitted to the platforms by project owners increased significantly from 2020 to 2022, before stagnating in 2023. Despite limited capacity to launch new projects, the difficulties encountered by project owners in obtaining traditional financing, such as bank loans, are encouraging them to turn to alternative solutions, such as real estate crowdfunding, which is one of the reasons contributing to the increase in financing applications.

In addition, the proportion of projects accepted by the platforms is falling year on year, reflecting the growing interest of project owners in this form of financing. In 2024, the number of projects financed as a proportion of financing applications fell to 15.5%, compared with 53% in 2020.

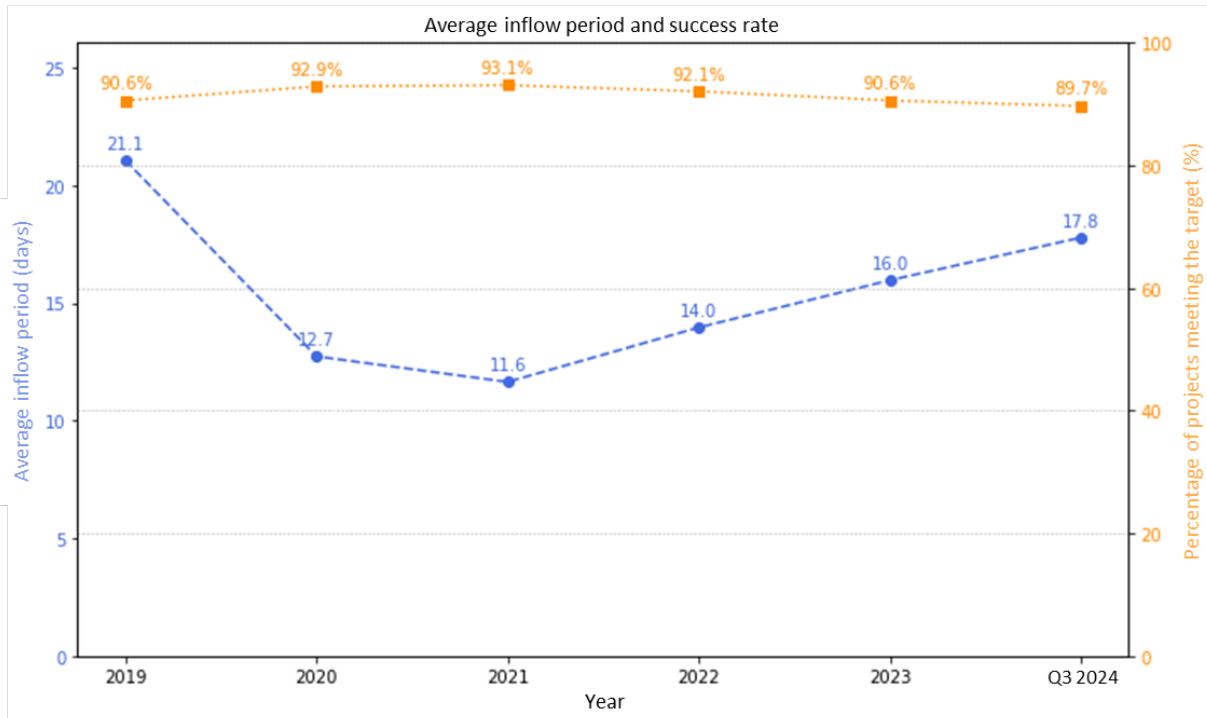


Average inflow period and success rate

The average inflow period and the success rate are indicators of investor interest in the projects offered by the platforms.

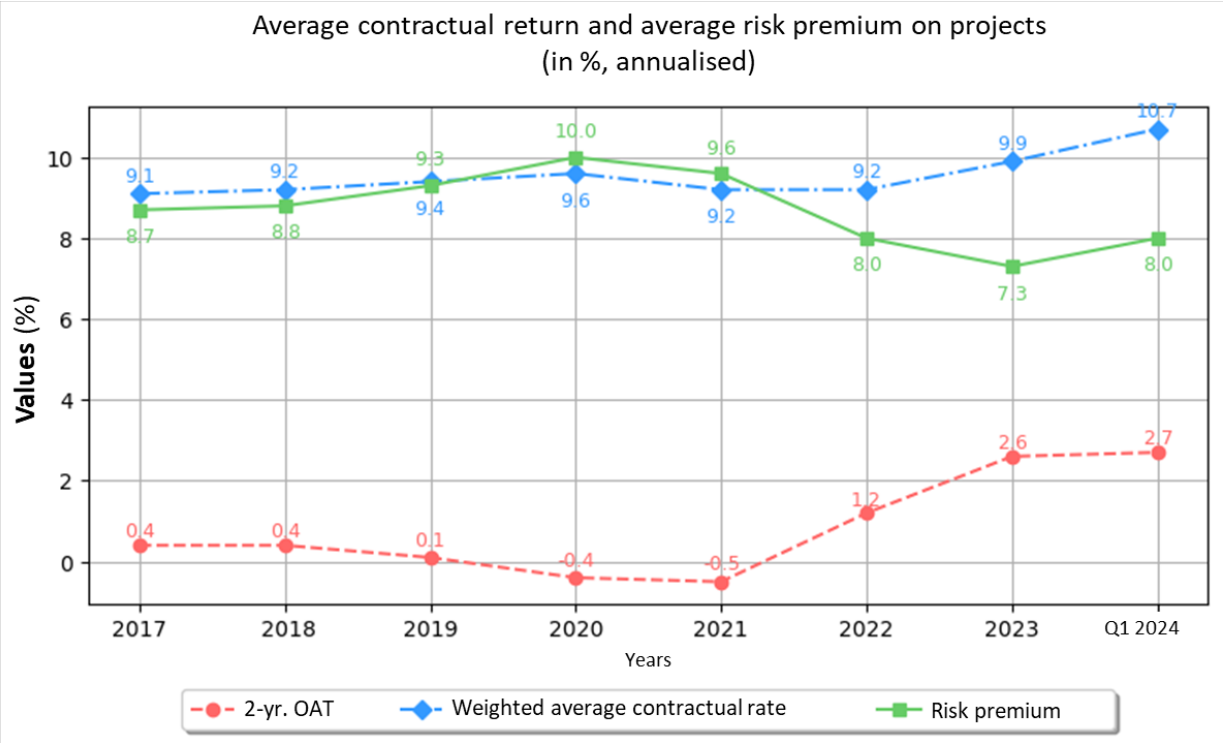
The average inflow period corresponds to the time it takes for a platform to raise the amounts required to finance a project. This period fell from 2019 to 2021. From 2022 onwards, the average inflow period has been rising, increasing from 11.6 days in 2021 to 17.8 days in 2024.

In terms of the success rate, which represents the percentage of projects that have reached their fundraising targets, an improvement can also be seen up to 2021. From 2022 onwards, the success rate has fallen very slightly, dropping from 93.1% in 2021 to 89.7% in 2022.



The slowdown in activity on the real estate crowdfunding market is mainly due to a drop in investor interest, while the number of applications for financing continues to rise. On the investor side, in addition to delays in interest payments and repayments of the principal, particularly for those reinvesting after being repaid, uncertain economic conditions and rising interest rates have reduced the attractiveness of these projects, which are suffering from financing constraints and a less favourable market environment.

Changes in returns and the risk premium on financed projects



The interest rates offered by project owners, i.e. the contractual return for financing real estate crowdfunding projects, averaged around 9% prior to 2022, as shown by the change in the weighted average contractual rate on the graph above. From 2022 onwards, the rise in rates by the ECB has led to an increase in the rates of return offered by project owners, reaching 9.9% in 2023, then 10.7% in 2024.

This increase is directly linked to the revaluation of the cost of credit against a backdrop of tighter monetary conditions. For project owners, this means an increase in financing costs, rendering certain projects less attractive and more difficult to implement, unless high returns are offered to compensate for this increase in financing costs.

On the other hand, while in absolute terms the rate of return on real estate crowdfunding has increased, the risk premium, i.e. the difference between the rate of return offered and interest rates, has decreased, even though the projects are experiencing greater difficulties. The 2-year OAT (2-year fungible French Treasury bonds) rose by more than 3% between 2021 and 2024, while the risk premium fell from 10% in 2020 to 7.3% in 2023, before rising to 8% in March 2024.

Payment delays

When evaluating real estate crowdfunding projects, a widely used indicator is the rate of delayed interest payments and capital repayments. Payment delays are one of the main indicators reflecting the difficulties encountered by project owners and, when aggregated by platform, can provide an overall picture of the market.

It is important to note that not all delays have the same impact on investors. Delays of several months are common in the real estate sector, due to administrative delays, construction or renovation delays, or marketing difficulties. These represent risks at these stages, which may extend project completion dates.

On the other hand, prolonged delays may signal more serious problems, leading to real difficulties for investors in terms of liquidity and potential loss of capital. They may also be indicative of general difficulties in the sector.

Delays are often classified into different categories: from zero to six months; more than six months; collective insolvency or legal proceedings; and definitive loss.

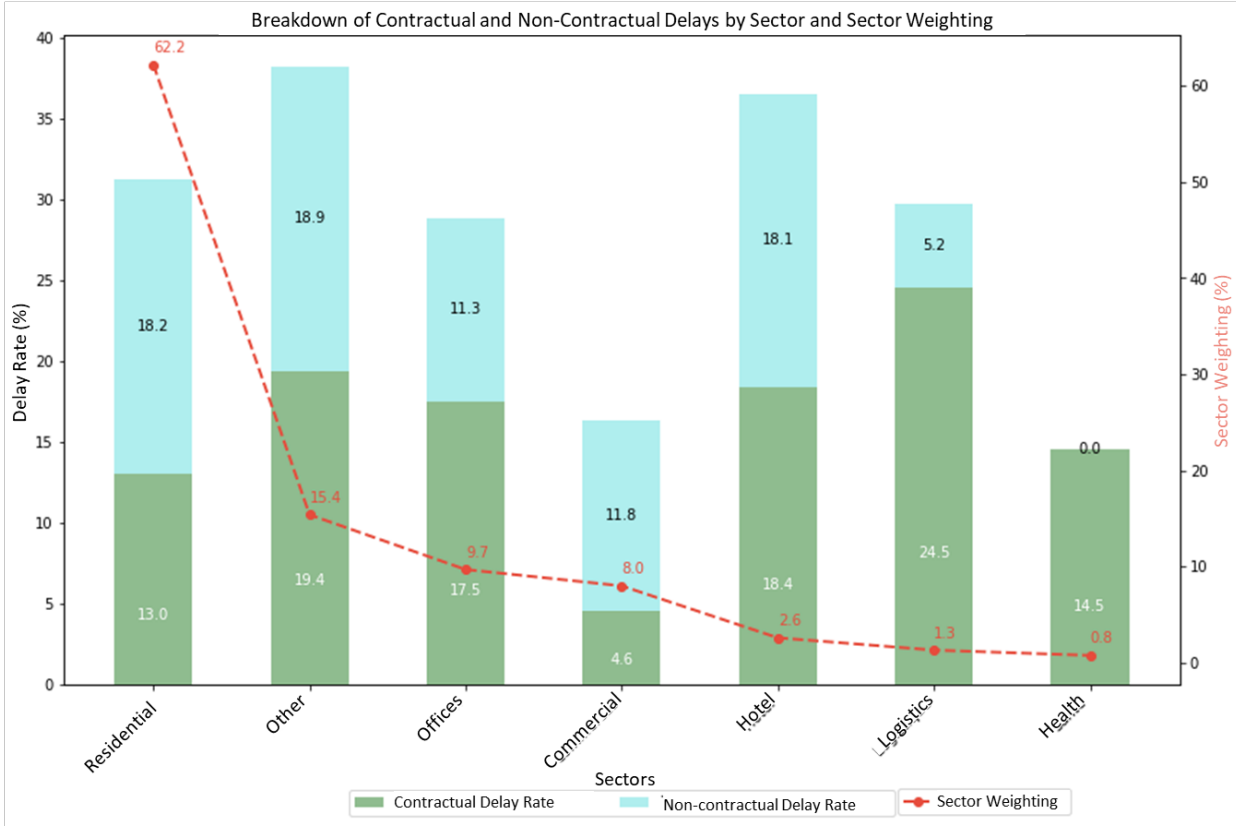
The next section of this study analyses instances of payment delays in the aforementioned sample and their characteristics in order to illustrate the level of risk associated with this market.

Breakdown of delays by sector

When assessing delays in real estate crowdfunding, it is also important to distinguish between contractual and non-contractual delays.

Some contracts include specific clauses governing contractual delays, i.e. delays that are anticipated and accepted in advance by both parties, with precise terms for managing these situations. For example, penalties may be applied if a deadline is missed, or an automatic extension of the repayment period may be foreseen without any immediate consequences for the project owner. These clauses may allow investors to be informed at the time of their investment of the occurrence of delays, provided that this information is given to them explicitly and in a visible manner. Conversely, non-contractual delays are not provided for in the project's legal documentation.

Whether delays are contractual or non-contractual, the consequences for the investor can be similar if the delays persist: loss of return, delays in interest payments, or even an inability to recover the capital invested.

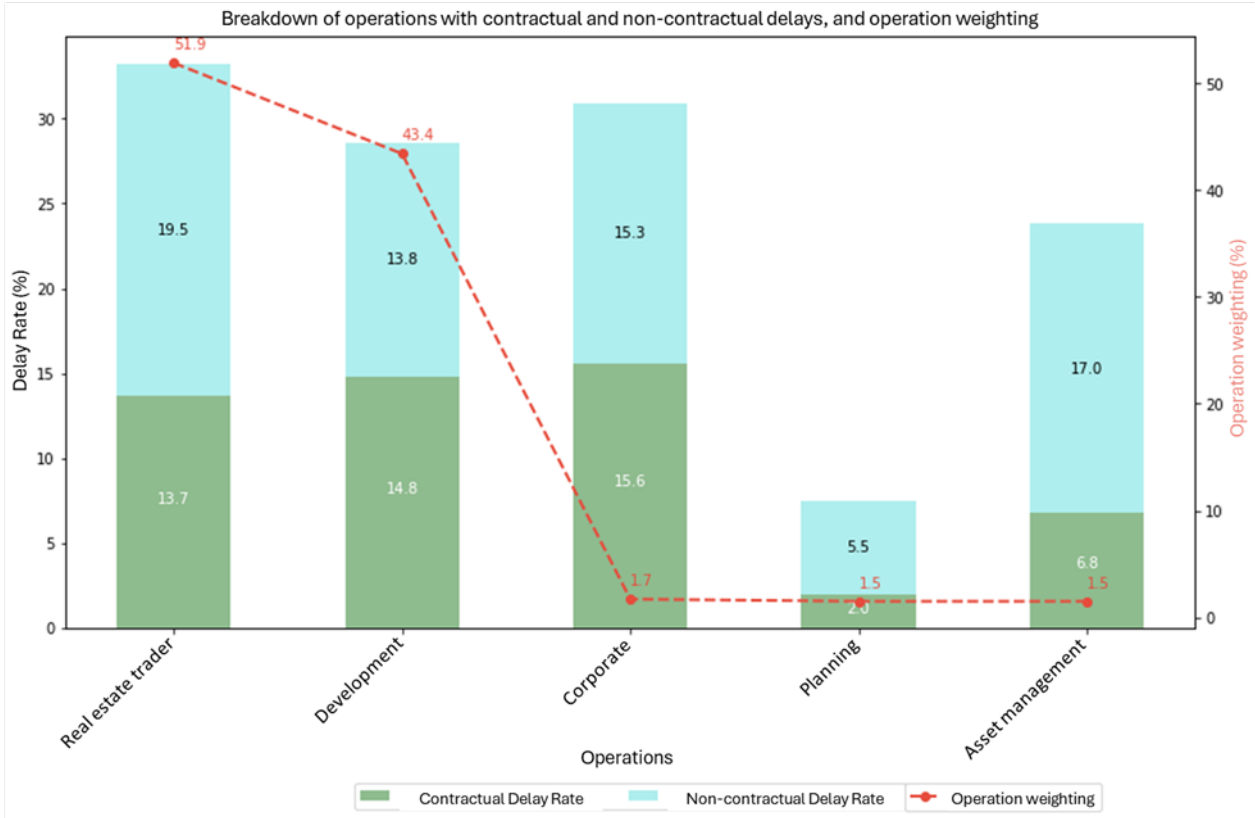


Payment delay rates for the nominal amount and for interest on projects in progress are above 30% across almost all sectors. Residential projects, which account for around 62% of projects in progress, are experiencing 18.2% non-contractual delays and 13% contractual delays. The commercial sector, which accounts for 8% of the total amount invested, has a lower delay rate than the other sectors at 16.4%. In the health sector, however, the number of projects is too small to allow reliable statistical conclusions to be drawn. For the other sectors, contractual delays outnumber non-contractual delays, indicating that the residential sector clearly has less restrictive contractual clauses.

Breakdown of delays by operation

In terms of the different types of operation, 33% of real estate traders' projects in progress have delays. These delays break down into 19.5% non-contractual delays and 13.7% contractual delays. For the second type of operation, real estate development, the delay rate is 28.6%, with 14.8% contractual delays and 13.8% non-contractual delays.

This breakdown may be subject to change as a result of the longer duration of real estate development projects. As the projects in progress have longer deadlines, potential delays are not necessarily yet known.



Penalties and interest rate adjustments in the event of payment delays

Interest generally continues to accrue in the event of delays to projects, except in the case of collective insolvency proceedings. As the majority of interest payments are made at maturity, it should be noted that if the interest is not capitalised, it does not itself generate interest. Therefore, the real return will be lower than the contractual interest, especially if the delays are protracted. The risk of default, with an inability to make payment, becomes increasingly likely if delays persist.

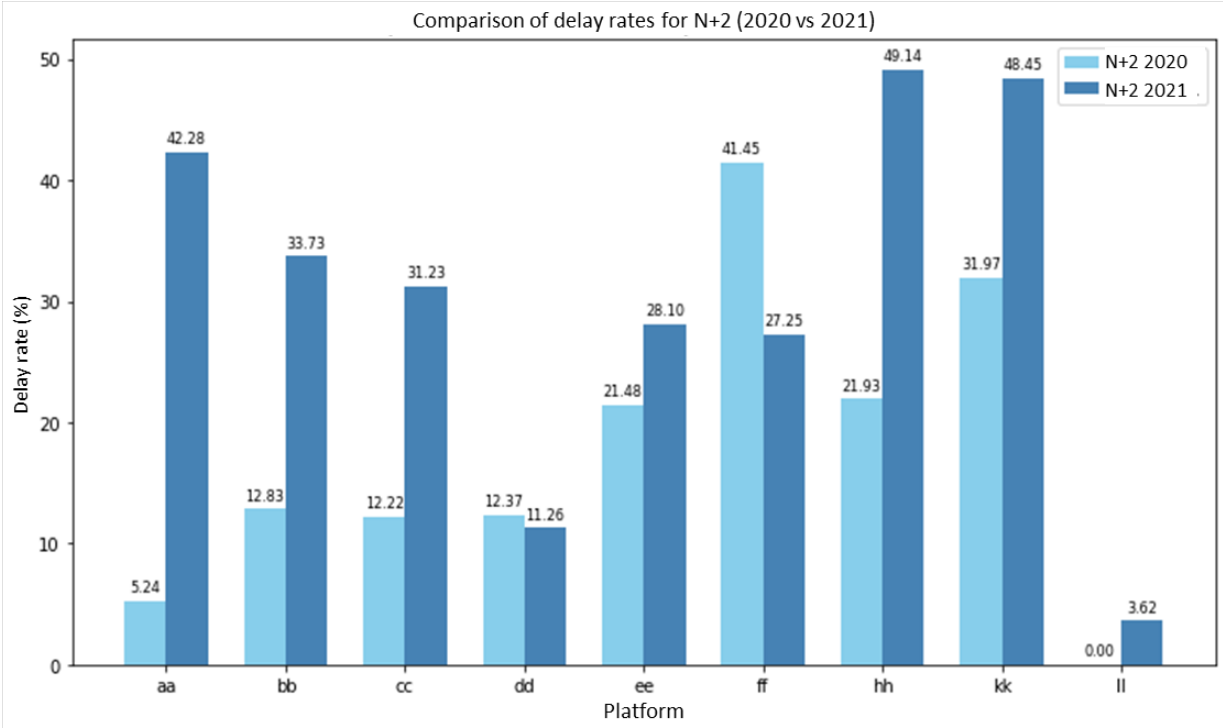
In some cases, penalties may be applied for late payment, although this is not the case for all platforms. Penalty levels vary considerably between platforms, ranging from 1% to 8% on the outstanding capital and, for some platforms, also on the interest due. Sometimes reference rates such as the Euribor are used to set the penalty rate. However, these penalties can add an extra burden for project owners who are already in difficulty.

Changes in delay rates

In addition to the statistics on delays to projects in progress, which are around 30%, it is important to analyse the projects by year of financing in order to identify any trends over time, particularly following the deterioration in economic conditions since the end of 2022.

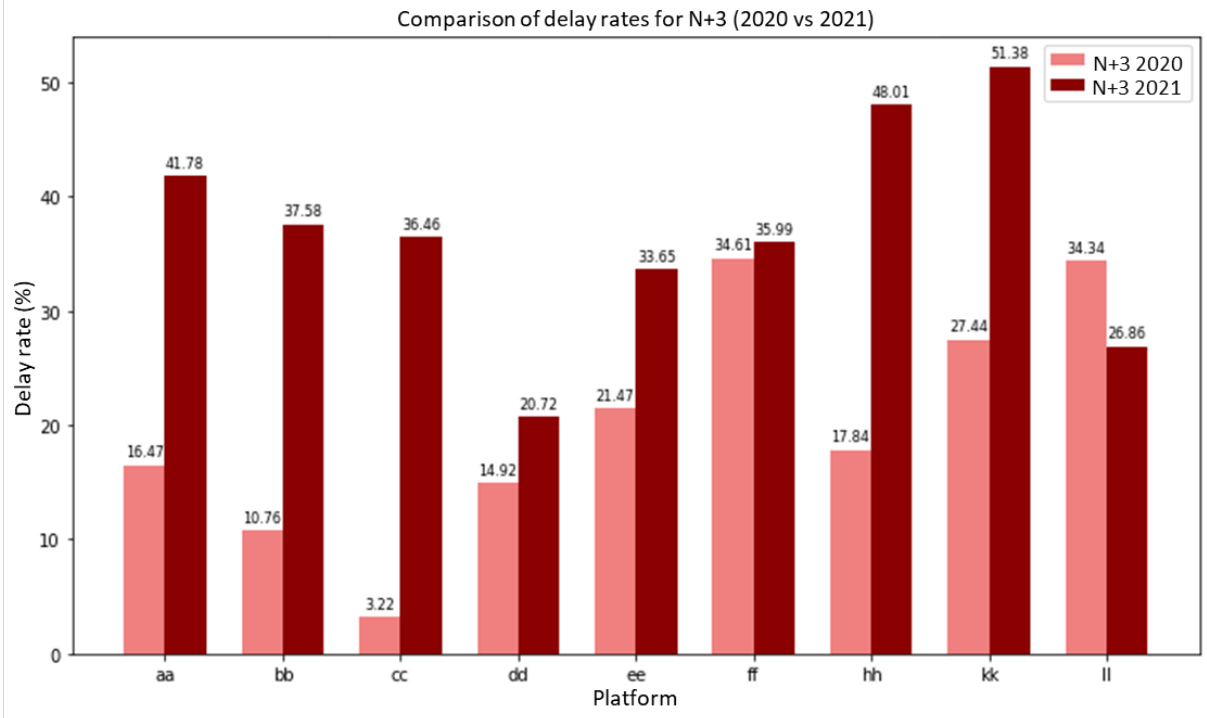
To do this, the ratio of the outstanding nominal amount for projects that have encountered difficulties has been compared to the total nominal amount financed per platform per year. This includes projects with delays of [0-6 months] and delays in excess of six months, as well as those involved in collective insolvency or legal proceedings, which have not been recovered at the observation date. The following analyses therefore relate to projects financed in 2020 and 2021, identifying the delay rates observed two and three years after their financing.

A significant increase in delays to the real estate crowdfunding projects financed in 2021 compared to those financed in 2020 is observed two and three years after their financing years. For example, around 31.97% (in nominal terms) of the projects financed in 2020 via one of the platforms in the sample (column 'kk' in the graph below) had delays two years after their issue. However, for the projects financed in 2021 by this same platform, this rate rises to almost 48.5% two years after their issue. This trend, observed throughout the sector, illustrates a significant increase in repayment periods⁴.



⁴ One platform has not been included in these statistics because it does not have a sufficiently long track record.

Observations of delay rates as at the end of 2023 for projects financed in 2020 and at the end of March 2024 for those financed in 2021⁵ confirm this trend: the amounts in arrears are increasingly high. The average delay for the nine platforms observed has risen from 20.1% to 36.9%. However, it is difficult to estimate the proportion of definitive losses that could be incurred by investors as a result of this increased delay.



The weighted average repayment term for these projects is around 24 months, and almost 75% of the financing has at maturity repayment terms, where capital and interest are paid in a single instalment at the end of the project. This structure makes it difficult to assess delays, particularly for those projects financed in 2022 and 2023, which have not yet reached maturity. It is therefore difficult to estimate the delay rates for more recent project years.

[Delay rate with carryover⁶](#)

Presently, the statistics published by the platforms are based solely on projects in progress, such that projects that are ultimately closed after a delay - even a significant one - are not counted under the delay category, but rather under the repaid in full category, which renders it impossible to assess the actual delay rate of projects by financing year.

In order to assess the delay rate correctly from the investor's perspective, it is important to take into account all projects, whether in progress or completed, while also including recoveries linked to difficulties encountered under the various delay categories mentioned above. Indeed, given the current state of information, a project that is finally recovered, even after several years of delay (e.g. three years), could be interpreted by investors as a 'successfully completed' project. This would give a

⁵ The data collected ends at the first quarter of 2024. Therefore, N+3 means two years and one quarter for projects financed in 2021, compared with three years for projects financed in 2020. Despite this shorter duration, a very marked increase in the delay rate can be observed for the projects financed in 2021.

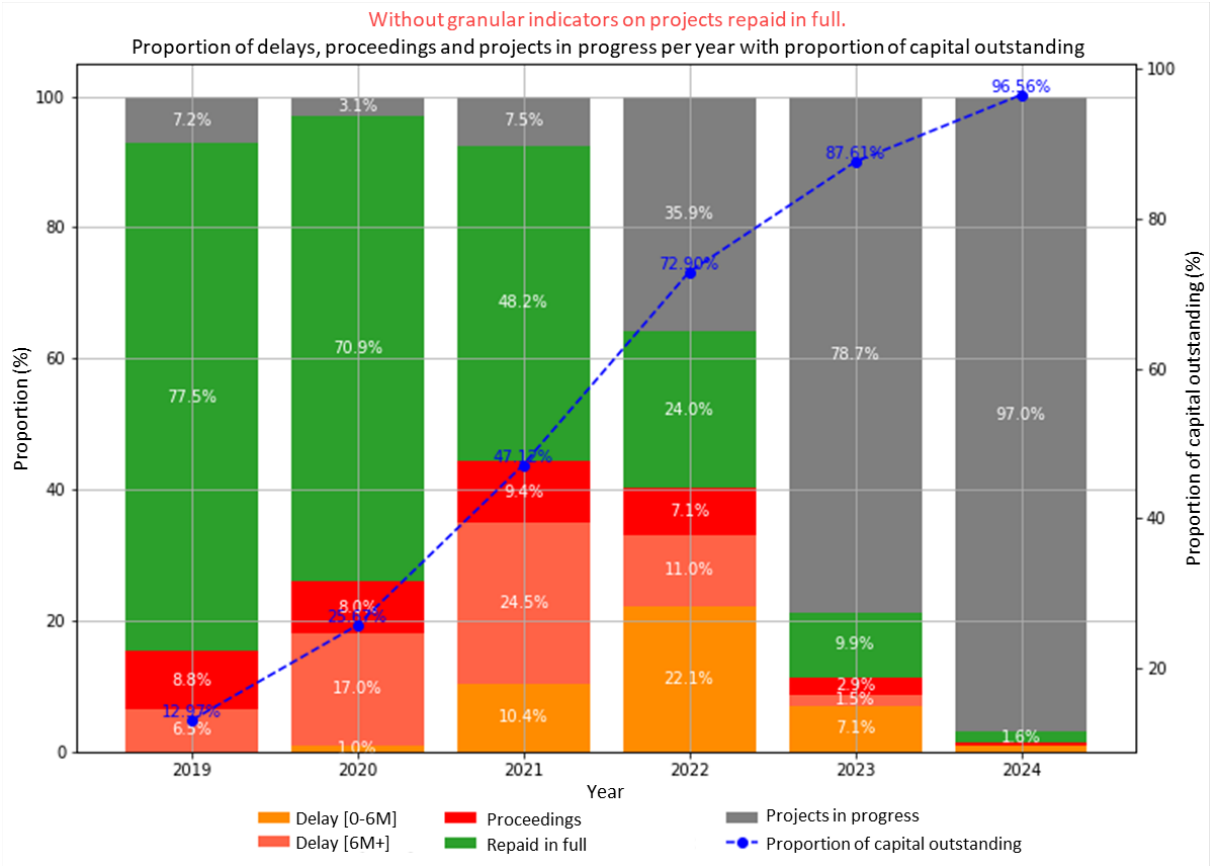
⁶ The 2024 statistics are based on the first quarter of 2024.

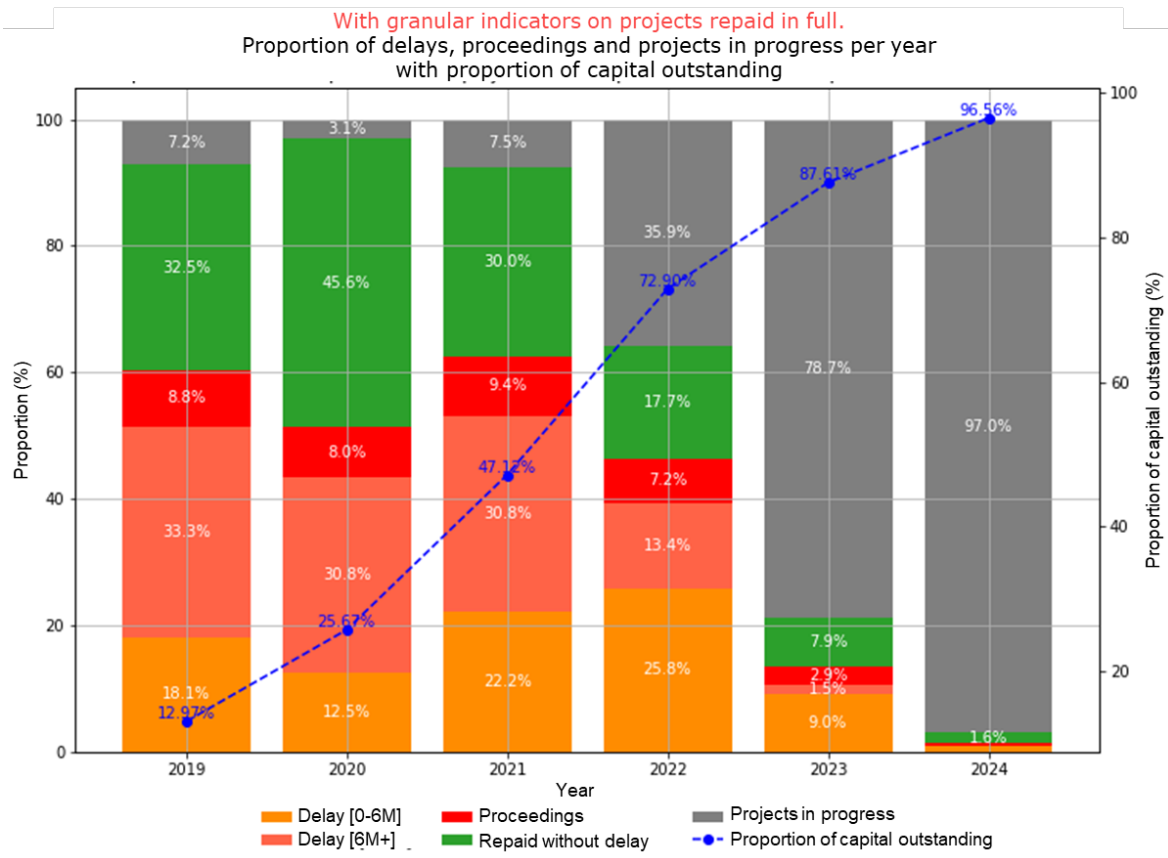
distorted picture of actual performance, as significant delays may indicate structural difficulties affecting profitability and liquidity for investors.

The proportion of projects reimbursed in full is shown by the green bar on the two graphs below. The proportion of this category on the first graph, which reflects the aggregated statistics published by the platforms, is 77.5% for 2019. In this presentation, the proportion of projects that experienced a delay is not visible, which may lead to confusion by giving the impression that all these projects have been repaid without difficulty. However, when the past delays of fully repaid projects are taken into account, as shown in the second graph, the proportion corresponding solely to projects with no delays falls to 32.5%. In fact, only 32.5% of the total nominal investment financed in 2019 did not experience delays, in contrast to the 77.5% reported under the methodologies currently applied by the platforms. While the first graph allows investors to obtain information on changes in the repayment rate for all sums due, the second graph tells investors about the rate of delay in relation to the initially agreed maturity date.

A comparison of the two graphs for 2020 and 2021 leads to the same conclusion: the large proportion of projects repaid without any delay falls significantly.

Logically, the proportion of projects with ongoing collective insolvency or legal proceedings (represented by the red bar) is identical for both graphs, since these have never been repaid in full. Similarly, the view is the same for projects launched in 2024 and 2023, since these projects have not yet reached maturity.





From an investor's perspective, statistics that include projects that are repaid late are important because, even if this does not result in a loss of capital, a delay in repayment means that capital is tied up for a longer time, which can cause liquidity problems. In some cases, situations can take several years to resolve, as is the case for certain projects funded in 2019.

Commercial presentation

Some real estate crowdfunding platforms advertise expected returns of around 10%, sometimes accompanied by a very positive message about very low capital loss rates. As mentioned above, no definitive losses were observed among the platforms analysed in this study.

The capital loss percentage, used by some platforms under different names such as the loss rate, default rate or final loss rate, is a biased indicator. On the one hand, these indicators are generally calculated in relation to the total amount of financing in progress, without taking into account the year of financing. In a context where inflows were increasing significantly until 2023, as is the case for real estate crowdfunding, this percentage of loss in relation to the total amount financed remains mechanically low. On the other hand, there is a lag effect: a definitive loss cannot be recorded until several years after the project has been financed. These two phenomena provide an erroneous perception of the risks, creating an over-optimistic vision, while 40% to 50% of the projects from 2020 and 2021 are experiencing delays for certain platforms. Nevertheless, several platforms continue to show a final loss rate or similar indicator that is very close to 0%.

Some examples of communications by platforms:

- 10.04% average gross annual return - 0% loss rate
- 0% capital loss
- 11.5% average rate of return - 0% default rate

Any communication highlighting the performance of investments should be accompanied by messages about the risks taken by investors, which is not compatible with this type of indication.

In this context, a clear understanding of the different indicators is essential. The first signs of project delays can provide an indication of latent risks. In order to avoid any delay effect in the indicators linked to new inflows, recoveries made beyond the contractual deadline should be accounted for and communicated to investors by project financing year.

The sales pitch and marketing materials used, including the Key Investor Information Sheet (KIIS), must take account of the specific characteristics of the financing of the real estate project in question and comply with the prescribed European format. This includes the terms of repayment, the risks associated with the underlying market and the risks specific to the project.

In particular, in the case of bond financing provided to a special purpose vehicle (SPVs), the vehicles must clearly indicate whether or not the bondholders benefit from a participating interest in any capital gain on the resale of the property and, if not, clearly indicate that the risk profile for the investor is asymmetrical, due to the risk of default by the SPV in the event of a capital loss on the resale of the property and the absence of any potential capital gain.