



May 25, 2022

The Honorable Sherrod Brown  
Chairman  
United States Senate Committee on Banking  
Housing and Urban Affairs  
534 Dirksen Senate Office Building  
Washington, D.C. 20510

The Honorable Patrick J. Toomey  
Ranking Member  
United States Senate Committee on Banking,  
Housing and Urban Affairs  
534 Dirksen Senate Office Building  
Washington, D.C. 20510

Dear Chairman Brown and Ranking Member Toomey:

Arrived Holdings, Inc. (“Arrived”) appreciates this opportunity to provide input into the committee’s consideration of a package of legislative proposals that would collectively encourage capital formation. As a company that operates under the implementing regulations of the original Jumpstart our Business Startups (“JOBS”) Act, we are pleased to offer our perspective on proposals that could meaningfully enhance the impact the initial legislation has had to date.

### **About Arrived**

Arrived provides access to wealth-building for retail investors by offering fractionalized ownership in single family rental properties. Our platform expands and streamlines real estate investing by simplifying the complex decision making and significant costs that are traditionally associated with owning these assets. Arrived’s unique investment and acquisition process allows individual investors to earn dividends from real estate investments without having to buy, manage, or finance any properties on their own. Investors bear no operational responsibility or legal liability, while gaining access to an asset class that many have historically not been able to afford. Arrived’s portfolio currently holds about 100 properties with an average price around \$300,000.

The Arrived platform allows individual investors to buy \$10 rental property shares with a minimum total investment of \$100 per offering. Before making an investment, investors browse the available properties that have been pre-vetted based on their income potential, determine how much to invest in each asset, and select shares, review the terms, sign an online contract, fund the investment by linking their bank account, and then, over time, collect their share of net rental income and join in the appreciation of the property’s value. Unlike traditional rental housing investments, our model allows investors to easily diversify their portfolios and spread risk across multiple properties. So far, the average Arrived investor has invested in 5.1 properties.

When investors purchase shares in an Arrived property offering, they are directly buying ownership in the individual Series of a Series LLC that owns that asset. Arrived is the first company to qualify single family homes as the sole asset of a Series with the Securities and Exchange Commission (“SEC”) under the JOBS Act’s implementing Regulation A+ to facilitate the sales of fractionalized shares in individual properties to the general public, including non-accredited investors. Based on our firsthand experience operating under Regulation A+ and working closely with the SEC, we would like to submit our comments on two sections of the JOBS Act 4.0 proposal: sections 306 and 307.



**Sec. 306: S.3921 - *Equal Opportunity for All Investors Act.***

Arrived exclusively offers investment vehicles issued under Regulation A+, and as such supports expanding access to accredited investor status in a manner that balances access to additional assets for retail investors with appropriate investor protections. Expanding the ability for investors to gain accreditation will allow more investors to access nontraditional assets, such as shares in fractionalized rental properties that Arrived offers, to build wealth. Our investment model is relatively simple, and based off the thriving U.S. housing market, in which tens of millions of Americans already participate, albeit at much higher costs, and with greater risk, than what our platform provides. As such, investor knowledge and comprehension of our business model preexists at a level that is quite high, unlike other types of more exotic assets. While we encourage all our investors to remain well-informed and attentive to the dynamics of the housing market, we feel that the existing accreditation requirements present a needlessly high barrier to entry into this widely used investment category.

Moreover, as one of the primary goals of the initial JOBS Act was to widen everyday investors' access to innovative investment vehicles, we feel that the proposals in Section 306 to lower the barriers to investor accreditation are well aligned with the congressional intent and purpose behind the original JOBS Act. By expanding access to investment in different assets to a wider pool of investors, the Equality Opportunity for All Investors Act would both meaningfully deliver the opportunity to invest in diverse asset classes to a broader pool of investors while providing the potential for future novel offerings to be made available to investors under Regulation D. Additionally, Section 306 would create a more level playing field for Regulation A+ qualified shares that would allow more investors to access the liquidity provided by the secondary market.

**Sec. 307: S.3966 – *Facilitating Main Street Offerings Act.***

As we previously shared, we believe that wealth-building through our platform is best accomplished by holding onto shares in rental properties over multiple years. While we encourage investors to hold onto their Arrived shares for the long term, we also understand that an individual's financial situation can change quickly, and access to liquidity is an important consideration for investors. We therefore currently allow investors to redeem their shares and liquidate their investments, but only on a quarterly basis and upon request. However, our ability to offer this liquidation, and the ease of which our investors may do so, is limited as fulfilling these liquidation requests is unnecessarily slow and labor intensive, requiring our staff to manually correspond with requests.

As the JOBS Act 4.0 draft recognizes, current law does not provide an exemption from myriad state "Blue Sky" laws for secondary trading of Regulation A+ offerings. The prohibitive difficulty of complying with so many differing state laws prevents this market from developing anywhere near its potential, and effectively prevents Arrived's investors from being able to access an on-demand secondary market that can facilitate significant liquidity.



The federal preemption proposed by Section 307 will benefit the investors we support by facilitating development of a secondary market for investors' shares. Since our investors and investment properties are distributed over several states, the creation of a single federal standard for secondary market trading of Regulation A+ securities will significantly ease our legal and compliance costs and lay the foundation for the thriving secondary market that we know is possible as fractionalized asset ownership continues to grow exponentially. Such secondary markets will be strongly facilitated by this federal preemption proposal, and we support it.

### **Further Comments**

In addition to providing comments on the two sections of the proposed JOBS Act 4.0 above, Arrived would respectfully offer submit three further comments for consideration by the committee as it contemplates proposals to enhance the original JOBS Act and to harness innovative means of capital formation. These comments are offered based on our firsthand experience operating under Regulation A+ and qualifying our Series with the SEC.

### **Challenges with SEC Financial Reporting Manual**

The SEC's Division of Corporation Finance Financial Reporting Manual ("FRM") Section 2330 establishes that any issuer of securitized real estate that has previously been used for any business purpose must make available the past three years of audited financial statements. Since our business model relies on the constant acquisition of rental properties which we then offer as securities, this requirement presents a significant compliance challenge. An individual homeowner from whom Arrived may acquire a property, and who may have rented the property for a few years during their decades-long ownership of the property, will not be able to produce audited financial statements. Moreover, an individual homeowner cannot be expected to know whether previous owners rented the property, and certainly would not be in a position to furnish audited financial statements if they had. Practically speaking, this burdensome requirement effectively means that the vast majority of residential real estate properties that have, or even may have been used for a business purpose in the past, cannot be qualified for a fractionalized investment Series offered under Regulation A+.

During our ever-expanding property acquisition process, we have encountered significant difficulty in determining with certainty, whether a property we wish to purchase has been previously used for a business purpose by any previous owner. The process of investigating all prior owners of a property, locating all necessary documentation, and assuring a property has never been used for any business purpose involves an impractical amount of due diligence, drastically slows our acquisition process, and, in the context of our model, provides no modicum of investor protection. This prohibitive requirement has effectively limited Arrived to purchasing and offering for investment only newly constructed properties with no previous owner or properties that we can ensure have only previously been used as a primary residence by the current owners prior to its construction, as this is the simplest way for us to ensure that it has never been used for a business purpose. Additionally, regardless of prior use of any property for a business purpose, our operations of the property rarely, if ever, mimic prior usage to a meaningful degree.



Our proactive, good-faith efforts to communicate this issue with regulatory and supervisory staff at the SEC have been met with unsatisfactory responses. These staff have declined to provide us a practical solution to this problem, such as a blanket exemption or guidance document, and we have effectively been told that any offerings of previously owned properties will be evaluated on a case-by-case basis in accordance with requirements of the FRM. This position does not provide us with the certainty required to acquire these properties and prepare to offer them to investors under a qualified Series, leaving our retail investors with significantly less access to the wealth-building potential of the rental property market than private equity firms and other institutional investors currently enjoy.

#### Addressing Discrepancy between Regulation CF Audit Requirement and Series Issuer Model

There exists currently a discrepancy in the SEC's application of audit requirements for issuers under Regulation A+ and Regulation CF. The SEC currently treats any Series issued under Regulation A+ as its own, separate issuance regardless of whether an individual offeror issues several Series. For Arrived, this has resulted in every individual Series we have offered to investors requiring its own distinct annual and, in the case of properties that have a prior business operating history, initial audit, with no discernible increase to investor protection. By contrast, issuances below \$535,000 under the SEC's Regulation CF are subject only to a review requirement, and this threshold is raised to \$1.07 million if the issuer has not yet issued any offerings under Regulation CF. Reviews are significantly smaller in scope than audits, and the work involved in Regulation CF is generally a cheaper and less and time-consuming task. In the context of issuances of fractionalized shares of ownership in single family rental properties, it is difficult to quantify any tangible investor protection afforded by this higher Regulation A+ standard, particularly since, as stated above, Arrived is currently unable to offer issuances that include previously rented properties.

As the committee considers revisions and enhancements to the JOBS Act, we would respectfully offer that the review construct provided under Regulation CF is an appropriate one that should be expanded to other issuances. The creation of a de minimis threshold for offerings below a certain value from a requirement for initial and annual audits would encourage more innovation and investor access to diverse assets without sacrificing investor protection.

#### Supervisory Inconsistency

In enacting the original JOBS Act, Congress intended to create an ecosystem in which investors could gain access to new types of assets, including, for example, fractionalized shares of rental properties, in a safe and supervised regulatory environment. Unfortunately, not all issuers of fractionalized shares in rental properties are subjecting themselves to the rigor and scrutiny of SEC supervision. As a result, our good faith efforts to operate under SEC supervision is made into a competitive disadvantage, as our competitors can purchase properties and issue investment products with advantageous ease and speed. Moreover, the assets offered by these platforms lack SEC supervisory oversight, which creates a higher potential for negative investor outcomes.



We believe that Congressional intent in this space is unambiguous: entities like Arrived that provide access for nonaccredited investors to fractionalized ownership in underlying assets should do so under SEC supervision. The lack of supervisory and enforcement attention to the many enterprises in the market for fractionalized housing investments acting outside federal requirements will significantly undermine the successful realization of the goals set forth in the initial JOBS Act and its implementing Regulation A+. As the committee considers revisions and enhancements to the JOBS Act, we respectfully offer that ensuring that this outcome is realized is an important and worthy objective.

### **Conclusion**

Once again, thank you for the opportunity to provide our perspective to the draft legislation. We appreciate the important and investor-centric proposals contained in sections 306 and 307 of the proposed JOBS Act 4.0 and appreciate the committee's consideration of our additional comments. If there is any further information that I can provide to assist your efforts in this regard, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Ryan Frazier".

Ryan Frazier  
Co-Founder and Chief Executive Officer