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Bringing Foreign Investment into Economically Distressed Markets: The EB-5 Immigrant Investor Program (Part I)

The saying goes that all real estate is local. But investment from overseas—real dollars for both residential and commercial projects—is becoming a more common opportunity for developers, especially those working in economically challenged markets. Some euro zone countries—Greece and Spain, [for example](#)—offer visas to wealthy Chinese home buyers.

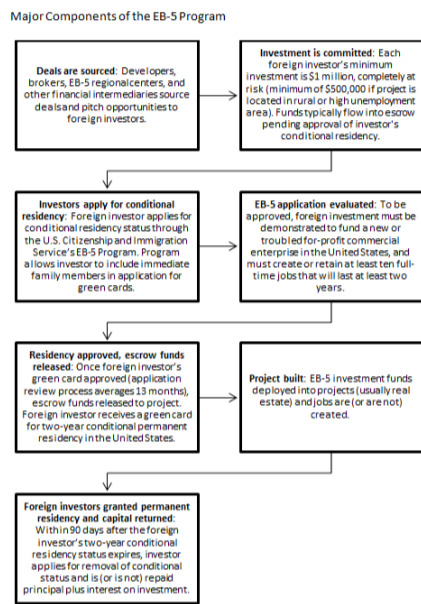
One source for commercial projects that is gaining the attention of community and economic development practitioners is the Immigrant Investor Program, called EB-5, a federal program designed to attract foreign investment to real estate projects in challenged markets. The EB-5 program provides residency status (green cards) to foreign investors in exchange for personal capital investments that create jobs in the United States.

EB-5 has been around since 1990, but growing wealth overseas (largely in China) and the financial crisis of 2008 created more demand for the program. More recently, the program has attracted the attention of a variety of economists, academics, and the media. In July 2014, for example, the unlikely political tripartite of mega-investors Sheldon Adelson, Warren Buffet, and Bill Gates endorsed the program in a *New York Times* [op-ed](#). A few short months later, a *Fortune Magazine* [piece](#) referred to the EB-5 program as "a magnet for amateurs, pipe dreamers, and charlatans, who see it as an easy way to score funding for ventures that banks would never touch."

In this first of two posts, I present the rough mechanics of EB-5 and some of the trends and challenges facing the program. In the next post, I will address the program's impacts in the southeastern region and further assess its strengths and weaknesses.

The mechanics of EB-5

A recent [report](#) from the Initiative for a Competitive Inner City (ICIC) profiled the EB-5 program. The ICIC report has a detailed [infographic](#) on the anatomy of an EB-5 investment. According to authors Kim Zeuli and Brian Hull, the major components of the EB-5 program are as follows (we've summarized their information in this flow chart):

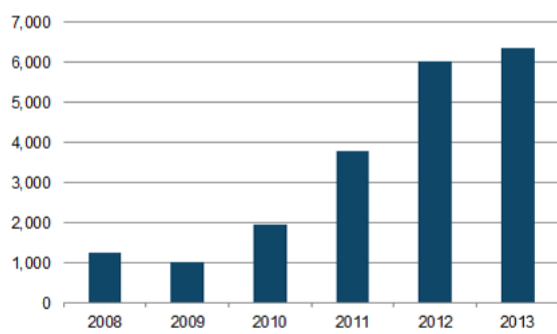


Sources: Zeuli and Hull (July 2014) and the Federal Reserve Bank of Atlanta

EB-5 investments can be made either directly into projects or through third-party entities called "regional centers." The city of Miami, [for example](#), was recently authorized to act as a regional center. These regional centers can source deals, pool investment capital, and provide a number of other advantages, including the ability to count indirect and induced employment toward the program's job requirement. (Direct EB-5 investments can count only direct job creation.) Note that EB-5 investments can be used anywhere in a project's capital stack. Regional centers usually have the finance expertise to leverage EB-5 for additional equity or debt, or to reduce risk for more traditional finance.

The United States has more than 575 regional centers, up from 13 in 2007. The ICIC, citing data from the U.S. Department of State, reports that from 2003 to 2013, 85 percent of all EB-5 visas were issued to investors from China, South Korea, Taiwan and the United Kingdom; 65 percent of them were issued to Chinese investors.

Number of I-526 Immigrant Petitions Received (2008–13)



Source: U.S. Citizenship and Immigration Services

Impacts and challenges

Since Congress first authorized the EB-5 program, it has captured about \$5 billion in direct investments and created more than 85,000 full-time jobs, according to a [recent report by Brookings](#). But the Brookings report also points out that the scarcity of reliable historical data makes it very difficult to evaluate the entirety of the program's impact. The ICIC report includes a summary and analysis of several hundred EB-5 projects. According to ICIC, the largest challenges facing EB-5 are uncertainty around the immigration approval process and the up-front capital and technical knowledge required to execute a project with EB-5 investment.

The next installment of this series will address the program's impacts in the southeastern region and further assess its strengths and weaknesses.

As part of the Atlanta Fed Community and Economic Development program's efforts to bring attention to economically distressed communities in the Southeast, we will be examining specific tools and policies—like EB-5—and sharing what we learn, sometimes in this blog.

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