January 6, 2015

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

This is the second post in a two-part series on the EB-5 Immigrant Investor Program. EB-5 is a federal program designed to attract foreign investment to real estate projects in economically challenged markets. Part 1 provided an overview of the mechanics and impacts of EB-5. This post discusses some of the projects in the southeastern region and discusses four major issues facing the program.

EB-5 in the Southeast
The Southeast is home to more than 100 approved immigrant investor regional centers and more than 25 successfully developed and financed EB-5 projects. A recent report from the Initiative for a Competitive Inner City profiles the EB-5 program and describes the projects. Click on the map to see details of seven projects financed at least in part through the EB-5 program.

EB-5 successes are balanced by at least as many stories of failure, delay, unmet expectations, or, in the worst cases, fraud and litigation. One such project was the Green Tech Automotive project in Tunica, Mississippi, where a start-up car company had plans for a plant expansion to manufacture a new line of fuel-efficient vehicles. So far, promises of job creation and foreign investment in rural Mississippi have gone unfulfilled, and the federal government is investigating the transaction.

The experience of New Orleans with EB-5 offers another cautionary tale. In 2006, the city created a public regional center through partnership with an out-of-state real estate developer. According to legal complaints, investors have alleged that principals at the regional center committed fraud and diverted funds. The city has been entangled in litigation for several years now.

Four major issues facing EB-5
Last summer, the Initiative for Competitive Inner City (ICIC) hosted a conference on EB-5, "Impact Investing in Inner Cities: Putting Foreign Capital to Work through EB-5." Four major considerations facing the program emerged in presentations and conversations with experts attending the conference.

- First is the limited availability of data on EB-5 projects, according to Brookings Institute and ICIC researchers, which impedes their ability to fully assess the program's impact. The U.S. Citizenship and Immigration Services annually collects data on EB-5 projects including which industries receive EB-5, the number of jobs each project creates or maintains, the total number of green cards approved, and the total number of petitions filed to remove immigration restrictions. But access to the data is limited. Many efforts are under way to centralize EB-5 data and to subject the program to more rigorous analysis.
- Second, despite limited data being available to accurately assess the program's impact, some have observed that the communities envisioned as the targets of the EB-5 subsidy have benefited only marginally from the program. This argument takes two main forms: the first focuses on the impact of EB-5 on a particular place, and the other looks at the quality and quantity of jobs created. As to the first, EB-5 is intended as a finance tool for projects that create jobs, and especially projects that target economically distressed communities in rural areas or inner cities. In theory, EB-5 provides capital for projects where other financing options are not available. However, there is a perception that more projects than not are using EB-5 in questionably distressed places, including chain hotels in major urban markets and drive-in restaurants along major highways. Some projects—such as one building a golf club in Boca Raton—are taking place in areas that are clearly thriving. In terms of job creation, the program does not include specifications regarding the *quality* of jobs. Any job counts, including minimum wage-level retail, service, or construction jobs, for example. In addition, EB-5 specifies a threshold of 10 jobs per investor, which some perceive as too low, given the upside potential for foreign investors and their families.
- Third, there seems to be limited alignment of local economic development priorities and EB-5 projects. EB-5 investors prefer public-private partnerships with local governments because, in addition to the leveraging effect, the public partner encourages greater transparency and accountability. Public-private partnerships also allow an investor to count jobs created by any public infrastructure improvements associated with private real estate financed with EB-5. For example, if a public road or sewer line must be extended in order to serve a new development, then the jobs created by public investment can count toward the EB-5 investor's job-creation requirement. So there are several incentives for EB-5 investors to support economic and community development priorities at the local level. However, according to Brookings Institute research, "regional centers and local economic development agencies lack coordination in their work, even though they share many similar goals." Such a lack of coordination may limit the deployment of subsidized capital into critical local improvement.
- Finally, a complex network of unregulated intermediaries and brokers are driving up costs and fees and, according to some, discouraging investment. From the perspective of potential investors, the process is wrought with the potential for misdirection and fraud. For example, intermediaries and brokers typically receive a commission for every investor they attract to a project. Aggressive promotional tactics, misrepresentations, and exaggeration regarding the safety of an EB-5 investment are commonplace, according to Brookings.

As part of the Atlanta Fed community and economic development program's efforts to promote the availability of capital in economically distressed communities in the Southeast, we will be examining specific tools and policies—like EB-5, and others—and sharing what we learn in this blog.

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Clayton
Natchez, Mississippi
Magnolia Bluffs Casino opened in 2012. The overall project cost was approximately $55 million, with 38 international investors providing $19 million.
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Anniston, Alabama
Anniston Senior Housing Development involves redevelopment of a former army facility into a senior living community. Expected to open in 2015, this $30 million project includes $6 million from 12 international investors.
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AJIN USA and its subsidiary WOOSHIN USA are auto body frame suppliers for Hyundai and Kia. The overall project cost for a manufacturing plant expansion was approximately $112 million, with EB-5 investors providing $41 million.
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Clayton, Georgia
Mountain Lakes Medical Center was renovated in 2012 using EB-5 financing. The second phase of the project will involve building a new hospital nearby and repurposing the existing hospital into a senior living facility. Overall, 31 international investors have provided $16 million.
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Atlanta, Georgia
Homewood Suites by Hilton Hotels, opened in October 2014, is adjacent to Hartsfield International Airport. This $18 million project was financed primarily with EB-5 capital from 30 international investors.
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Harbourside Place river walk, entertainment plaza, marina, restaurants, and hotel. The $144 million Harbourside Place facility was built with partial EB-5 financing.
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Via Mizner Golf and Country Club is currently in the third phase of development, which is using EB-5 investment. The overall project cost is approximately $129 million, with 88 international investors providing $44 million in subordinate debt.
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A Sonic fast food restaurant opened recently on Fort Lauderdale Beach. This project was financed with $4 million from 8 international investors.
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Miami, Florida
The University of Miami Life Science and Technology Park phase I opened in 2011 and included a 250,000-square-foot life science building. The overall project cost for phase I was $107 million, with $20 million from 40 international investors.
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