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Chinese Pullback Raises Cost of Financing Linked to Visas

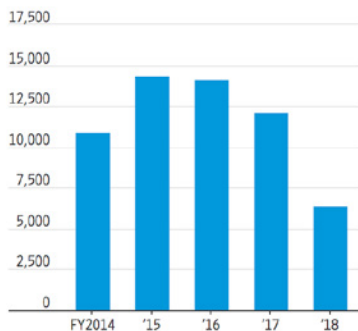
Participation has declined in EB-5 program, which trades U.S. residency status for foreign investors' money



A retreat by Chinese investors is raising the cost of a once reliably cheap source of financing for big U.S. real-estate projects.

Foreign Fallout

New EB-5 visa applications, annually



Note: Fiscal year ends Sept. 30.
Sources: Department of Homeland Security, U.S. Citizenship and Immigration Services

The U.S. government investment program known as EB-5 offers property developers low-cost capital from wealthy foreigners. These investors agree to invest at least \$500,000 in real-estate projects in exchange for U.S. residency.

The investments often are structured as loans, and for years, the program was dominated

by Chinese investors, who were often willing to accept low returns to obtain a green card. When Chinese interest waned, investors from places like India and Vietnam stepped up.

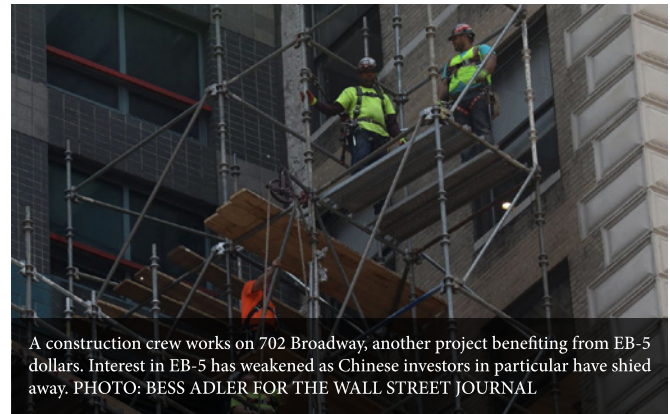
Now, many individuals from these other countries are proving to be tougher negotiators.

This new wave of investors now regularly demand 2% returns or higher on investments, compared with returns as low as 0.25 percent that until recently were common for Chinese investors, according to industry professionals. They are charging as much as 10% in so-called preferred equity funds, which are riskier for investors.

Once the Chinese started pulling back from the program, the lower returns were no longer going to be enough to attract investors, said Colin Behring, a developer based in Danville, Ca. "You have to sweeten the deals to get any attention," he said.

Despite the sweeter terms from developers, foreign interest in the EB-5 program has been in steep decline: New EB-5 visa applications in 2018 dropped nearly 50% over the previous year, according to the industry group Invest In the USA, which analyzed government estimated data. Petitions fell to 6,424 in 2018 from 12,165 petitions in 2017.

This decline reflects Chinese investors' frustrations, according to people who work in the EB-5 business. A growing backlog of applications from China, combined with the U.S. cap on the number of visas available to mainland Chinese, have generated wait times for Chinese applicants of more than 16 years for a visa, according to recent U.S.-government estimates.



As a result, loans that carried interest rates of 5% are getting harder to come by.

"You're seeing a lot of 7 and 8% money, which is much higher than what I was seeing just a few years ago," said Debbie Klis, a lawyer at the Polsinelli firm, who is working with developers on two EB-5 projects in Florida that are largely funded by Vietnamese investors.

In some instances, the backlog of visa applications has caused the cost of borrowing to rise even higher.

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When a developer pays off a loan before the foreign investors' visa applications are completed, the money has to be reinvested in another project until the visa process is done. Government-designated organizations, known as regional centers, run the EB-5 investment and can place the money in a new project. But they can charge high interest for reinvesting that money quickly.

That was the case when the U.S. Immigration Fund, one of the more active regional centers, recently moved a \$145 million EB-5 loan from a hotel near Times Square in Manhattan to a nearby skyscraper under construction by Maefield Development and partners. The developers are borrowing at 13%, loan documents show, twice as much as the typical EB-5 deal.

Maefield declined to comment. U.S. Immigration Fund also declined to comment.

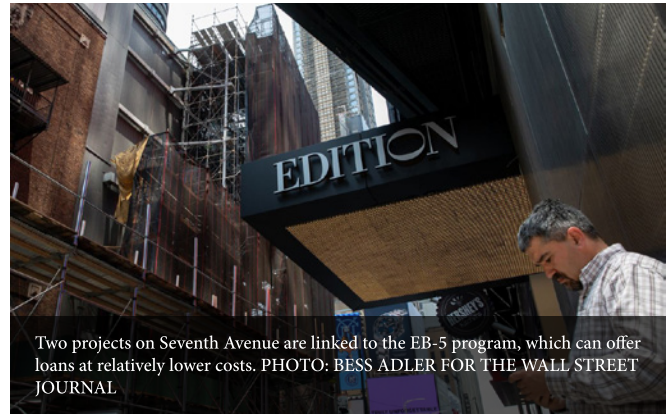
Even at these higher rates, EB-5 loans can come cheaper than other readily available forms of similar debt that can charge up to 20% interest.

In response, some companies are getting more creative. Greystone, a real estate company that raises money from foreign investors through EB-5, is trying to attract more investors from Brazil. The firm said it was looking into ways

to let the investors borrow half the \$500,000 investment and pay it back once they are settled in the U.S.

Some recent medical school graduates in Brazil may not have enough cash on hand to make the real estate investment, but they want to pursue medical careers in the U.S., said Allison Berman, head of Greystone's EB-5 operation.

"They obviously have great earning potential," she said.



Two projects on Seventh Avenue are linked to the EB-5 program, which can offer loans at relatively lower costs. PHOTO: BESS ADLER FOR THE WALL STREET JOURNAL