

## Understanding the realities of EB-5 financing

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### Story Highlights

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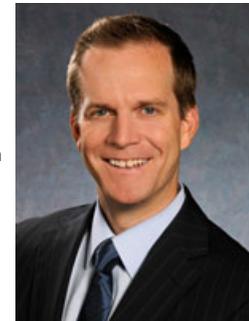
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The EB-5 immigrant investment program remains a source of opportunity for hotel project capital as the U.S. debt markets continue to stabilize, [as reported by HotelNewsNow.com's Shawn A. Turner](#). Despite the rapidly growing interest by sponsors of hotel projects and potential foreign investors, successfully navigating the EB-5 program remains a challenge. The purpose of this article is to provide a brief primer on EB-5.

Although EB-5 has become a common buzzword during the past several years, it has been in existence for more than two decades. EB-5 is premised on jobs, and it requires the creation of at least 10 full-time jobs for U.S. citizens, lawful permanent residents or other immigrants lawfully authorized to be employed in the U.S.

The program generally requires a minimum investment of \$1 million, but this number is reduced to \$500,000 for investments made in a targeted employment area. A targeted employment area consists of an area where unemployment is at least 150% of the national average or location in rural areas. The program requires 3,000 of the available 10,000 program visas be set aside for investments in a targeted employment area. Foreign investors are commonly attracted to investments in targeted employment areas because of the lower cost of participation.



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The principal benefit of EB-5 to a foreign investor is access to an expedited process for obtaining U.S. residency while also having the opportunity to participate in a potentially attractive investment.

Upon approval of the investment by U.S. Citizenship and Immigration Services, the foreign investor becomes a conditional resident of the U.S. for two years. The foreign investor will later petition the USCIS to remove the conditions, which generally require the foreign investor to demonstrate the full investment was made and the required number of jobs were created. As a result, it is critical that a hotel sponsor structure an investment that is attractive to foreign investors and will create jobs.

One of the outstanding benefits of raising capital through the EB-5 program is the cost of capital is relatively low compared to debt or other forms of equity participation. Although sponsors are finding success in obtaining lower interest rates on their debt financing, EB-5 remains competitive with acceptable returns to foreign investors that are a couple of points lower than today's interest rates on debt. At a minimum, EB-5 financing can help fill a void in a hotel project's capital stack.

In addition to the general EB-5 program, the U.S. Congress supplemented the program with the EB-5 Regional Center Pilot Program in 1992, which today is the most commonly used path for EB-5 investment. The pilot program was established to improve participation in EB-5 by allowing investment in "designated regional centers." The benefit of investing in a regional center is a the sponsor only needs to make a showing that 10 or more jobs will be created, directly or indirectly, by the investment—as opposed to the general requirement that the commercial enterprise directly employ 10 workers.

Sponsors gain an obvious advantage by utilizing the pilot program because, in addition to the direct employment created by a hotel, the developer can also count the indirect jobs created by the hotel project. By expanding the number of jobs created, a sponsor can increase the participation (and thereby investment) in the hotel project. Sponsors have successfully raised tens of millions of EB-5 investment dollars by aggregating foreign investment dollars for hotel projects.

The regional center pilot program, which is temporary, has been renewed every few years by Congress before its scheduled expiration. The pilot program was set to expire on 30 September 2012, and there was significant uncertainty around whether the program would sunset. Congress recently reauthorized the pilot program through September 2015.

A regional center can be a public or private entity that satisfies the EB-5 economic, productivity and growth requirements and must be approved by the USCIS. It is important to note that regional centers have varying levels of experience and service offerings, and also have a variety of different compensation arrangements, all of which should be carefully considered when

a sponsor is selecting a regional center.

Although EB-5 makes available up to 10,000 visas per year, the rigorous application process coupled with agency review times approaching (and sometimes exceeding) a year requires careful planning, coordination with other financing sources and patience for use in a hotel project.

Assuming a sponsor is prepared to manage the process and the lag time required to secure EB 5 financing, it will continue to be a reasonably viable source of capital for an investor's hotel project.

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