

dallas-fort worth

By Dan Healy

the end of 2008 was a dire time. Trillions of dollars vanished in a matter of months. The U.S. housing bubble burst and the securities tied to it crumbled. The total collapse of many of the world's largest financial institutions wasn't out of the question, national government bailouts were the main topic of conversation, and global stock markets plummeted. Apocalyptic financial forecasts seemed like they would inevitably come to fruition.

But as solvency issues and declines in credit availability plagued markets, municipalities such as Dallas and Fort Worth, turned towards innovative ways to finance local economic initiatives with a keen focus on job creation. An industry was born and the use of EB-5 capital became commonplace.

EB-5 INVESTMENT VISA

Interestingly enough, Congress created the EB-5 Immigrant Investor Program for foreign nationals under the Immigration Act of 1990. This Act allows foreign nationals to obtain a green card by investing significant capital into the United States while creating permanent, high-quality jobs for American workers. In order to obtain a visa, foreign nationals must invest \$1,000,000 or \$500,000 into a Targeted Employment Area (TEA), which is defined as a high unemployment or rural area. Each investment must produce or preserve at least 10 jobs for Americans.

Once their petition is approved, foreign investors and their dependents are granted conditional permanent residence for two years. Approximately 90 days before their conditional permanent visa expires, investors must submit documentation proving that their investment has created and sustained 10 jobs, or will within a reasonable time period, in order to receive a green card.



In 2011, EB-5 capital, private financing, and historic tax and new tax market credits helped transform a 100-year-old building into the NYLO Dallas South Side Hotel, the first full-service hotel in south Dallas in over 50 years.

Throughout the 1990s and up to the financial crisis, the program was grossly underutilized, with only a few dozen 3rd party-managed investment vehicles (public, private or public-private), known as regional centers, in operation. Today, the federal government has approved more than 500 regional centers and the United States Citizen and Immigration Services (USCIS) received more than 6,500 petitions in 2013,

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More information can be found at civitascapital.com and iiusa.org.

RESPONDING TO THE FINANCIAL CRISIS AND THE ARRIVAL OF THE EB-5 IMMIGRANT INVESTOR PROGRAM

On the back of the 2008 financial crisis, municipalities such as Dallas-Fort Worth responded opportunistically by entering into public-private partnerships with EB-5 fund managers. This unique model aligns the interests of cities, developers, EB-5 fund managers, and global investors alike. While a few managers have negatively exploited the program, others are working diligently alongside regulatory bodies to institutionalize it. The industry has experienced tremendous growth since 2008 and still has plenty of room to develop, but the EB-5 Immigrant Investor Program is here for the long run.

compared to fewer than 800 applications in the year before the financial crisis. Regional centers pool capital raised from foreign nationals under the EB-5 Immigrant Investor Program and deploy it into job-creating economic development projects.

PUBLIC-PRIVATE PARTNERSHIPS

After the fall of Bear Stearns and Lehman Brothers, bailouts were unveiled across the globe and portfolios began to stabilize. The market was still uncertain but starting to take a serious look at EB-5 capital as a viable source of financing. At the time, only a handful of regional centers had completed a transaction and the overall quality of these transactions was low. Recognizing this, we saw an opportunity to get involved in the program in a systematic way. By 2009, Civitas Capital Group was formed with the goal of bringing capital to underfunded communities in the U.S. via high-quality investment opportunities that are tailored to meet the unique needs of global investors.

Meanwhile, Dallas-Fort Worth was looking for creative ways to promote foreign direct investment into their cities. After applying and being approved for a regional center in Dallas and subsequently in Fort Worth, we proposed to operate them – as we hold a strong view that cities shouldn't expose themselves to this type of underwriting risk. What transpired was one of the first public-private partnerships (PPP) in the EB-5 arena, where the cities and private partners come together to create a best-in-class ecosystem. Our role is to seek out high quality, job-creating opportunities for global investors and the cities, while providing institutional quality underwriting and services.

In the simplest form, a PPP is a contract between a private party and a public sector authority. Given our conviction that EB-5 capital can play a significant role in the economic development of municipalities in Texas and throughout the United States, we formalized our PPP with both Dallas and Fort Worth. The goal is to

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leverage EB-5 capital to achieve key economic development priorities of the cities. Often, EB-5 fund managers are private enterprises. While this model can work, these managers can become hamstrung by their own self-interests. For example, they tend to be affiliated with a real estate group and constrained by their priorities. Our PPP with Dallas and Fort Worth allows us to operate under a private equity model, where we can evaluate a range of projects and select the best ones that fit the long-term economic objectives of the cities and are tailored for the risk-return profile of the global investors we serve.

INVESTMENTS

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This platform has enabled us to successfully structure dozens of projects, deploying hundreds of millions in capital and creating thousands of jobs in the state of Texas. Moreover, the PPP allows us to attract international financial support to fund a variety of real estate investments, including multifamily and mixed-use residential developments, office developments, and senior housing facilities, as well as investments in other industries such as corporate finance for local businesses to expand.

Looking at some of our projects in more detail, I want to highlight four investments in the Dallas-Fort Worth area:

A few years ago, we raised around \$5.5 million for the NYLO Dallas South Side Hotel. Working closely with one of the region's most reputable developers, Matthews Southwest, the investment helped transform a 100-year-old building into the first boutique, full-service hotel in south Dallas in over 50 years. The five-story, 76-room hotel is an ideal complement to a burgeoning area of Dallas filled with entertainment venues and



StoneGate Senior Living used \$10 million of EB-5 capital to fund two affordable assisted living facilities in south Dallas. The facilities provide an affordable assisted living option to local residents, which was previously not available in the area.

a growing amount of residential housing. When we first evaluated the project, the numbers didn't make sense. However, the combination of competitively priced EB-5 capital, private financing, and historic tax and new tax market credits, gave us a compelling investment thesis. The hotel officially opened in September of 2013 and is off to a strong start. This investment really speaks to the power of what public and private sources of funding can do together.

In another investment, we identified the need for high-quality, mixed-use space in the West Village neighborhood of Dallas and worked closely with developer Forest City Enterprises to raise \$64 million in EB-5 funding. The building, which will feature 387 luxury apartments and hold over 37,000 square feet of retail space, is slated to be completed this year. The retail development side of this project is notable, as a number of jobs will be created through its construction and operation – which will ultimately bring great benefits to the local economy.

In late 2012, we made a \$5.0 million joint venture equity EB-5 investment into the Alexan Trinity, a three-story, 166-unit, Class A garden-style, multifamily apartment complex in the Oak Cliff neighborhood of south Dallas. The investment was made with Trammell Crow Residential, one of the most respected residential and mixed-use developers in the country. The project received \$4 million in tax increment financing from the city of Dallas and recently won the *Dallas Business Journal's* Best Real Estate Deals of the Year award in the Most Creative Financing category. Best of all, it has played a positive role in revitalizing the area.

Lastly, we raised \$10 million in EB-5 capital to fund StoneGate Senior Living's development of two affordable assisted living facilities in southern Dallas. This facility employs over 30 skilled nurses and is home to hundreds of lower-income residents who did not have other options. While the margins on this type of project tend to be thin, it fits a risk-return profile for some global investors. Best of all, it gave birth to an affordable assisted living facility in a community where the services are in high demand and alternatives are very limited.



\$64 million of EB-5 investment in the form of a senior loan was deployed to finance the construction of Forest City. The complex will be home to 387 luxury apartments and have over 37,000 square feet of retail space when it is completed in 2014.

CHALLENGES

EB-5 capital remains a niche funding vehicle in the world of finance and capital markets; however, it's not as exotic as it once was. This is due to its widespread use in commercial real estate projects and unfortunately, because a few managers have negatively exploited the program. Media and regulators have taken notice and this increased scrutiny is welcomed: it's critical for the institutionalization of the program.

I'm often asked how the regulatory bodies can improve, and to be honest, they are doing a good job. In the early years, the issue was getting a better feel for the push-pull relationship or how to review applicants and deal with the private financing side of the business. Over the years, the USCIS has made great strides in issuing guidance to EB-5 constituents and providing clarity on how to utilize the program. They are also expanding and hiring the talent needed to support this effort. During the spring of last year, the agency moved its headquarters from California to Washington, D.C. and opened an Immigrant Investor Program Office with 60 full-time employees and 20 economists. Finally, the USCIS is working hard to strengthen its inter-agency relationships with the SEC, FBI, and other U.S. intelligence agencies. This is important, as it will help protect both investors and the national security of the United States. These are all steps in the right direction.



The Alexan Trinity has been recognized by leading media outlets and won awards for its creative financing structure. The project leveraged EB-5 investment and \$4 million in tax increment financing to create a 166-unit, multifamily apartment complex in the Oak Cliff neighborhood of south Dallas.

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In the public arena, there is a preconceived notion that this program is tailored only for the ultra-wealthy and that they are buying American citizenship. However, a number of the foreign investors we work with have saved a significant amount of their net worth or even pooled family money together in order to obtain a visa. It's often everything they have – their life savings. It's important to note that they are subject to significant burdens of proof at multiple stages during the process. Many of them are highly educated and are using the program to help facilitate American businesses they are already involved in. It's a real win for the American economy, which benefits from investment and job creation. Sophisticated economic models have been developed over the years that show exactly how this foreign direct investment positively impacts our local and national economies.

YEARS TO COME

We work closely with institutional partners throughout Texas and across the U.S., including investment banks and asset managers, to explore how we can align the interests of all the stakeholders we touch. The pipeline of investments is robust. The Association to Invest In the USA (IIUSA), the leading industry trade association for the EB-5 regional center program, estimated that last year, more than \$2 billion of EB-5 capital was deployed in the U.S. This comes at zero cost to the American taxpayer and as noted previously, the return on each foreign investor's investment is subsidized by the added benefit of a potential green card. This is of particular importance considering that market interest rates have only one direction to move in the U.S., which will increase the cost of capital in the future.

Having no effect on American taxpayers plays a major part in why the EB-5 program enjoys broad bipartisan support. Democrats, Republicans, mayors, and judges all like the profile of the program and are looking for creative ways to use it and see that it continues to grow. This is very encouraging.

It's unfortunate that it took the financial crisis in order for the EB-5 industry to develop to where it is today. Cities like Dallas and Fort Worth were smart and opportunistic – a trend that more cities in America will hopefully follow. The PPP model is a fantastic way to align interests between cities, developers, EB-5 fund managers, and global investors. To be sure, the USCIS and regulatory bodies have their hands full – there is much work to be done, but EB-5 capital is here to stay. ☺



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