



The E-B5 Opportunity in Senior Housing

Measuring the risk vs. reward

A look into how senior housing operators are funding the next generation of senior living with this unique investment opportunity.

EB-5 101

The challenges and opportunities of the EB-5 program for senior housing owners and operators

By Keith Loria

Thanks to a government program first put in place in 1990, there's a huge opportunity for senior housing developers to get funding for projects, but many of them still don't truly understand how it works or what they need to do.

Called the Immigrant Investor Program (but more commonly referred to as the EB-5 program), the program permits foreign nationals to receive U.S. permanent residence based upon an investment of capital in a U.S. business that creates employment for U.S. workers.

Congress enacted the first EB-5 pilot program in 1992 to help stimulate the U.S. economy through job creation and capital investment by foreign investors.

A foreign investor is required to invest \$1,000,000 in a business to qualify for the EB-5 visa, but the investment amount is reduced to \$500,000 if the investment is made in a targeted employment area (rural areas or those with 150 percent higher unemployment rates than the national average). The investment must create 10 new U.S. jobs or save 10 existing jobs.

The annual limit for EB-5 visas in a given year is 10,000, but that number has yet to be reached. Still, according to figures released by the USCIS, it's getting

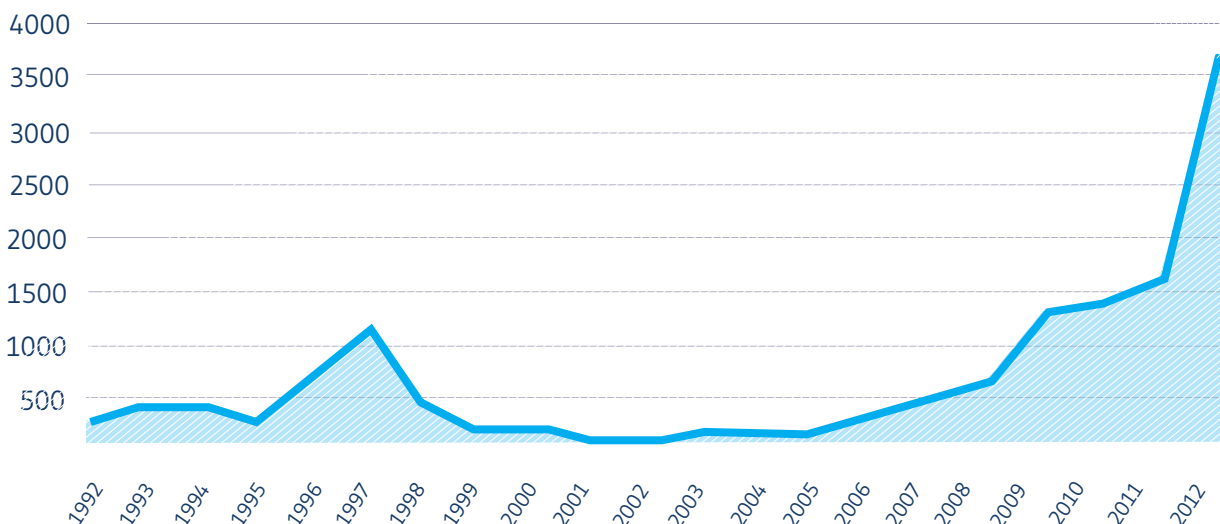
closer. In 2007, the number was only 800, but that grew to 6,600 by 2012 and approximately 8,500 in 2013. An IUSA-commissioned economic study released in February 2014 found that U.S. EB-5 immigrant investor visa program contributed \$3.39 billion to U.S. GDP and supported over 42,000 U.S. jobs during fiscal year 2012.

Senior Housing owners can utilize the EB-5 program for nearly all aspects of senior housing including independent living, assisted living facilities, memory care and skilled nursing.

"Most senior housing projects are new developments located in targeted employment areas, which allow foreign investors to invest \$500,000 into the development," says Tyler McKay, director of Artisan Business Group, Springfield, Ill., which regularly brokers EB-5 deals says. "If the jobs are not created by the project, the investors will be deported and have to go back to their home country."

Congress continues to inspect and refine the program each year, and while theoretically it can end during any year's sessions, EB-5 experts agree that it's a program that isn't going to go away anytime soon.

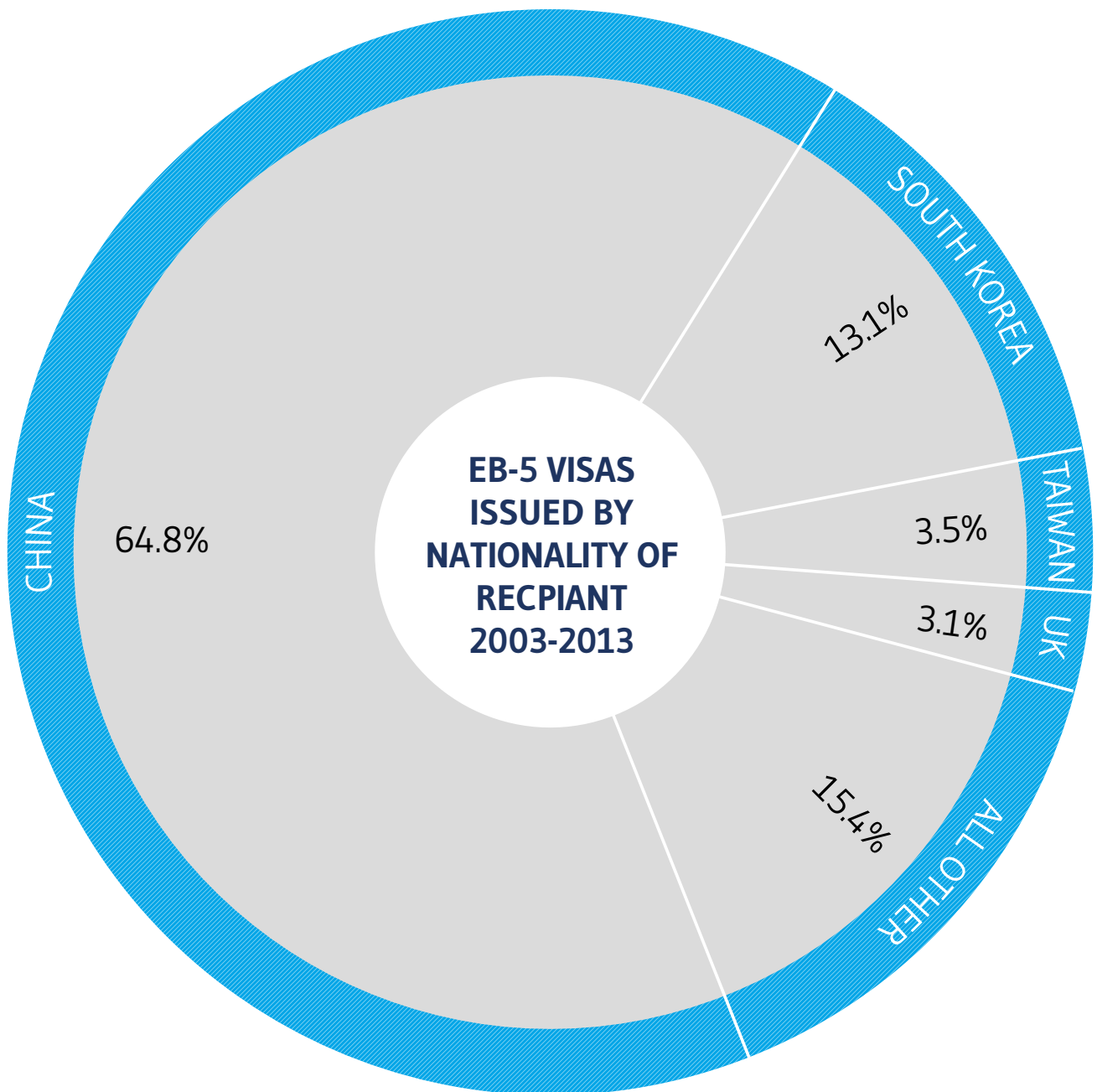
EB-5 IMMIGRANT INVESTOR APPROVALS 1992-2012



Source: U.S. Citizenship and Immigration Services



WHERE IS THE MONEY COMING FROM?



THE ROLE OF THE REGION CENTER

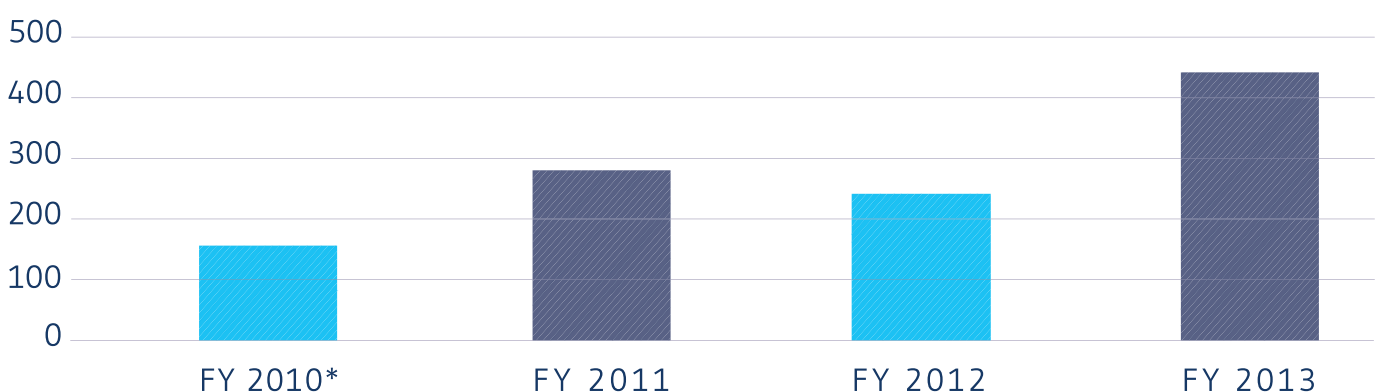
One of the changes Congress made to the program over the years was in allocating additional EB-5 visas for investors in Regional Centers designated by USCIS based on proposals for promoting economic growth.

An EB-5 Regional Center is any organization—publically or privately owned—which facilitates investment in job-creating economic development projects by pooling capital raised under the EB-5 immigrant investor program.

According to McKay, they maximize the program’s job creation benefits by facilitating the investment of significant amounts of capital in large-scale projects often in coordination with regional economic development agencies, which then use the EB-5 funds to leverage additional capital.

Currently, there are 216 regional centers throughout the U.S. Just as with the original EB-5 guidelines, investments made through Regional Centers must create at least 10 direct, indirect or induced jobs.

FORM I 924, APPLICATION OR REGIONAL CENTER UNDER THE IMMIGRANT INVESTOR PILOT PROGRAM



Source: Information provided by USCIS (May 16, 2014)

*Form I-924 came into use on November 23, 2012

¹²² Immigration Act of 1990 121(b)(5), Pub. L. No. 101-649; 8 U.S.C. 1153 (b)(5).

¹²³ INA 203 (b)(5)(A).

¹²⁴ INA 203 (b)(5)(B)(ii). Most foreign entrepreneurs invest in a “targeted employment area,” defined as rural or urban area that has experienced high unemployment (of at least 150 percent of the national average rate). Under 8 C.F.R.T. section 204.6 (f), the amount of capital necessary to make a qualifying investment in a targeted employment area within the United States is \$5000,000.

¹²⁵ The Judiciary Appropriations Act of 1993 610, Pub L. No. 102-395 (Oct. 6, 1992).

¹²⁶ Information provided by USCIS (Jan. 24, 2014)



MONEY MATTERS

An overwhelming percentage of investors taking advantage of the EB-5 program are coming from China, with reported figures nearing 65 percent according to the U.S. Department of State. South Korea is next on the list, with 13.1 percent, followed by investors in Taiwan (3.5 percent) and the UK (3.1 percent).

The amount of money a senior housing developer can raise is determined by a complex formula involving the number of jobs the project will create. Because EB-5 funds can come from a host of different countries, all projects first must be approved by the United States Citizenship and Immigration Services.

“The regulatory regime that these developers have to navigate is pretty extensive,” says Clem G. Turner an attorney with Homeier & Law, P.C., who regularly works on EB-5 issues. “Not just the guidelines, rules and procedures set forth by the USCIS (immigration) but many of the deals can be arbitrary at times, and there isn’t really anything written down anywhere in a clear way that people can find it to understand.”

For the foreign investors, money is usually not of chief concern, and they will accept very modest return on investment, provided that the deal as a whole is reasonably fair as between the investors and the general partner/regional center.

Still, EB-5 investors are no more willing than traditional investors to undertake risky projects, so there is a strong preference in the market for transactions that are collateralized or where the assets of the entity receiving the investment are unleveraged real estate.

Turner stresses the real importance of the EB-5 program as being it helps to create jobs for Americans.

“Of all deals I have done in my career, EB-5 is the best for that benefit,” he says. “It’s why it’s a great thing for senior housing developers, as well as all companies. It gets more senior housing deals done and creates more jobs for American workers.”

The EB-5 program is great to utilize when funding from other avenues have been explored and exasperated. The use of EB-5 is definitely helping senior housing developers set up for success and compete because of cheaper capital.

“I don’t believe a lot of senior developers we represent can get construction loans today because construction lending has really dried up in the U.S.,” Turner says. “Even if they are able to get some financing, no one is going to finance 100 percent for any project and it will be somewhat expensive with interest rates at 8-12 percent or more. When looking at senior housing projects, EB-5 costs somewhere near 5 percent, so it’s a valuable alternative.”

Turner says that with EB-5 money, developers can hold back some of their equity and use it in another project so there’s a nice long runway of cash before they need to hit stabilization.

PLAN IN ACTION

Many senior living developers today are using EB-5 money to finance 30 to 50 percent of their senior living centers.

Ridgeline Management Company Senior Living currently has plans to break ground on Waverly Assisted Living, LLC, a 92-bed senior living community in Albany, Ore., which will include 71 units of assisted living and 21 units of memory care.

Dennis Garboden, Ridgeline's president, said the project has been in the planning stages for a while, but was put on hold due to the recession, and the EB-5 program has helped get the development back on track. He was first approached about the idea in 2011 and after some careful research, decided it was a good way to go.

"We were on hold for a while, but the EB-5 program was the catalyst needed to get things going again," he says. "For us, it was a no-brainer."

The project is estimated to cost \$13 million, with about \$10 million of that being raised through EB-5.

Whatcom Opportunities Regional Center, based in Bellingham, WA has raised over \$30 million to fund development of several senior-assisted living projects, which include condominium apartments rented to seniors and provision of medical and other services to the tenants.

"EB-5 can work well when you are your own destiny and the center for your own project, so you need to make sure the messaging is consistent," Guitton says. "If you have one guy trying to make \$20,000 and another taking two percent and another who wants to move here and double business, it just doesn't synch up well."

The PDC Capital Group is a private equity firm that specializes in development projects funded through EB-5 visa investments, and its latest entry into the fold is the Lincoln, Calif.-based SummerPlace Lincoln, which is a planned 166,000 square-foot, three-story assisted living residence, set to open in 2016.

The facility is just one of 25 assisted living residences that PDC Capital Group plans to open throughout the country in the next 36 months by making use of the EB-5 funding. "The Eb-5 program provides most of the equity we put into the projects, then we use standard debt financing through a wide variety of sources," says Chris Miller, chairman of SummerPlace Living, which partnered with PDC on the project.

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RockBridge Senior Living, Vero Beach, Fla., has an ambitious next year ahead of it, with possibly six new senior developments breaking ground, something that never would have been possible without making use of the EB-5 program, according to the company's chief operating officer, Jeff Carmichael.

Each new development will run close to \$15 million, with as much as 50 percent of the funds coming from the increasingly popular government program.

"The EB-5 program is a very unique program that allows foreign investors an opportunity to invest in US businesses and create American jobs while also having the chance for an American visa," says Tyler McKay, director of Artisan Business Group, Springfield, Ill., which regularly brokers EB-5 deals. "The program stimulates the U.S. economy and promotes economic growth while costing nothing to the American taxpayers."



LIFE OF AN EB-5 INVESTMENT

INVESTORS ARE GATHERED FROM ACROSS THE GLOBE

22 TOTAL INVESTORS

500k MINIMUM PER INVESTOR



CONSTRUCTION OF THE DEAL

11M EB-5 INVESTMENT

6M FROM US LENDERS

17 MILLION TOTAL

Escrow funds released to project

I-526 Immigrant Petition by Alien Entrepreneur

Investor's funds are returned from escrow

GREEN CARD APPROVAL
U.S. State Department

2-year conditional residency status granted

Application for conditional permanent residency status

Investor repaid or funds lost

Within 90 days after the two-year conditional residency status expires
EB-5 investors are subject to same process and criteria as other immigrants seeking green cards.

\$17M FOR DEVELOPMENT PROJECT

COMPANY MANAGES THE DEVELOPMENT OF THE COMMUNITY THROUGH COMPLETION

MINIMUM **10 JOBS** PER EB-5 INVESTOR = **220+** JOBS FOR U.S. WORKERS

INVESTORS ARE REPAYED THEIR ORIGINAL INVESTMENT AFTER A 5 YEAR PERIOD AT A RATE 0.5% APR

The Pros and Cons

The EB-5 program allows developers an opportunity for alternative financing which has proven to be less costly than traditional loans.

A pro of using EB-5 funds is it offers developers more flexibility in the way the money is used. That means you can use the money as inclusion in your initial capital, or even repay loans with higher interest rates.

For a while, Orlando, Fla.-based Lifecare Properties, LLC was drinking the EB-5 Kool Aid and planning to help its development portfolio grow, but all was not what it seemed to executive director Frédéric Guitton.

Lifecare was seeking minimum investments of \$500,000 from qualified foreign nationals, which would have been used to make loans to the owners of assisted living projects.

"We pursued it for a while, but we're not anymore; we stopped about a year ago," Guitton says. "It's a space that in my view has too many moving parts and representations that are made that aren't accurate from those who don't share the same interests."

For example, the company struck a deal with a group out of China but could not synch up the same business ethics. It seems, the investors didn't care about the quality and needs as much as Lifecare obviously did.

"We asked around and found that a lot of those in the senior housing [market] have faced that, and additionally saw a lot of trying to renegotiate the deals, and we were just not interested in that," he says. "It's something I am just not comfortable with returning to now."

So, what attracted him in the first place? Like many others, it was the simple ease of access to capital and the cost of capital.

"It appeared looking from the outside, there was a substantial amount of capital looking to go in and that it was easy to get done," Guitton says. "Obviously, the cost was fairly attractive. In theory it was a perfect fit. Senior developments seems perfectly fitted for the EB-5 space."

One of the reasons that Guitton is comfortable walking away from the EB-5 space in 2014 is the more reliable capital that's available compared to a few years ago, when they were still somewhat frozen.

Turner says one challenge is in the familiarity or lack thereof of people investing into the projects. If not done to the letter of the rules, there can be extremely long delays of many months, and possibly years, so it is not what the foreign investors are looking for.

Developers are selling securities and the FEC has really taken notice of EB-5 and has become really watchful to make sure people raising money aren't violating security laws," he says. "Not that many who started with EB-5 were worried about that four years ago, but now are much more aware. If you don't operate in a manner that's compliant with security laws, there are going to be problems."

For senior housing developers interested in the EB-5 program, all experts tend to agree that the first step is to attend a conference or workshop with experienced EB-5 speakers to gain the initial knowledge about whether the program might be a good fit for an upcoming project.

"My best advice for someone looking to enter the EB-5 space with a senior development project is to work with those who have worked with clients previously and been successful," Turner says. "Put a good team together because it's almost impossible to do research and navigate the maze alone. You need to work with those of us who are aware of the pitfalls and can better navigate you through."

If you decide to move forward, the next step is to put an experienced EB-5 team and prepare the required documents for the EB-5 program.

"To be successful in raising EB-5 capital, you must put together an EB-5 experienced team of business plan writers, economists, immigration and security attorneys, consultants and escrow providers," McKay says. "Without proper knowledge and expertise in the program, senior housing developers will spend a lot time and efforts with little or no success."



FINAL THOUGHTS

Those working closely with EB-5 programs guesstimate that between 50-100 senior development companies have inquired about the program in the last year with dozens taking the plunge.

“I recently had a conversation with developers who were curious about EB-5 but these were developers with a track record of getting private equity to facilitate a deal, so even if they can’t get 60 or 70 percent of the project through senior lending, they have access to available financing to close the deal,” Turner says. “For them, EB-5 didn’t make sense. Others who don’t have that same capital and are willing to wait out the year or so it may take, it makes sense.”

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